

THE STUDY OF THE DEVELOPMENT
OF THE CONVENIENCE STORES IN HONG KONG

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ABSTRACT

The retailing industry has undergone a number of transitions in the last few decades in Hong Kong.

Traditional store dominates the retail market in 1950's. However, its leadership status was challenged in 1960's with the mushroom growth of supermarkets. In the 1970's, the convenience store concept arrives in Hong Kong. Now, the convenience store has become a popular retail outlet to many people.

Hong Kong now has well over three hundred convenience stores. Nevertheless, people in the industry believe that there is still room for further growth.

This research report explores if the convenient store industry is saturated. A survey is conducted to identify the buying patterns of customers to convenience store. Result shows that people consider convenience as a major consideration in choosing where to buy, and that there should be space for the industry's further development.

Given that the market should be able to support new convenience stores, the question remaining is how to expand. A number of expansion strategies are reviewed in this research report.

In view of the high development cost, franchising is examined in detail and is considered as a possible expansion strategy. In fact, it has already been employed to help the industry grow.

A second survey is devoted to exploring the feasibility of converting traditional store owners into franchisees. The survey discovers a number of barriers.

The report ends with a recommendation of how to overcome the barriers to the franchising concept implementation, and a concluding chapter.

TABLE OF CONTENTS

ABSTRACT	ii
TABLE OF CONTENTS	iv
LIST OF TABLES	vii
LIST OF FIGURES	vi
Chapter	
I. INTRODUCTION	1
Summary	5
II. GROWTH POTENTIAL OF CONVENIENCE STORE	6
Degree of Market Saturation	6
Summary	8
III. CONVENIENCE STORE - EVOLUTIONARY CHANGES IN THE RETAIL BUSINESS	9
Traditional Stores, Supermarkets and Convenience Stores	9
Life Cycle of Retailing Institutions	11
Dalrymple's Theory on Retail Outlets	11
Economic Growth and Convenience Stores	12
Summary	12
IV. GROWTH AND EXPANSION	14
Internal Development	15
Acquisition	16
Joint Development	18
Joint Ventures	19
Franchising	19
Licensing	19
Agents	20
Internal Reorganization	20
Summary	20

V.	FRANCHISING	22
	Definition of Franchising	22
	Overview of Franchising	24
	United States	24
	United Kingdom	25
	Australia	25
	Growth and Expansion through Franchising	26
	Advantages	26
	Disadvantages	27
	Future Development of Franchising	27
	Summary	29
VI.	CONSUMER BUYING BEHAVIOUR SURVEY	30
	Proposition	31
	Demographic Factors	31
	Preference of Various Retail Outlets	31
	Retail Outlet Choice	32
	Survey Objective	33
	Methodology	33
	Sampling Design and Coverage	33
	Data Analysis Method	34
	Results and Analysis	34
	Result Summary	34
	Detail Result Analysis	35
	Transaction Amount	35
	Shopping Frequency	35
	Items Purchased	35
	Salient Factor for Retail Outlet Selection	36
	Discussion and Implication	37
	Limitation and Restriction	38
	Sampling Error	38
	Summary	39
VII.	SURVEY ON ACCEPTANCE OF FRANCHISING	40
	Proposition	40
	Attitude Towards Franchising	40
	Monetary Reward as Motivation Factor	41
	Non-monetary Reward as Motivation Factor	41
	Survey Objective	42
	Survey Methodology	42
	Coverage and Sampling Design	42
	Survey Method	43
	Survey Findings	43
	Attitude Towards Franchising	43
	Monetary Reward as Motivation Factor	45
	Non-monetary Reward as Motivation Factor	46
	Limitation of the Research	48
	Sample Error	48

	vi
Sample Size	49
Summary	49
VIII. IMPLICATIONS AND RECOMMENDATIONS	50
Implications of the Two Surveys	50
Recommendations	51
Change People's Attitude on Franchising	51
Appeal to Younger Generation	51
Search for Other Potential Franchisees	52
Internal Development	53
Summary	53
IX. CONCLUSION	54
APPENDIX	
TABLE	
FIGURES	
BIBLIOGRAPHY	

LIST OF TABLE

TABLE 1 A Summary of Consumer Buying Pattern Survey

LIST OF FIGURES

FIGURE 1	Average transaction amount of each retail outlet
FIGURE 2	Average transaction amount each retail outlet for different income group
FIGURE 3	Shopping frequency of each retail outlet
FIGURE 4	Average weekly consumption amount in each retail outlet
FIGURE 5	Shopping frequency at each retail outlet for different education level
FIGURE 6	Average shopping frequency at each retail outlet for different income group
FIGURE 7	Common purchasing items in convenience store
FIGURE 8	Common purchasing items in supermarket
FIGURE 9	Common purchasing items in traditional store
FIGURE 10	Common purchasing items in each retail outlet
FIGURE 11	Salient factors for retail outlet selection
FIGURE 12	Believe that franchising needs a huge investment
FIGURE 13	Believe that franchising will enhance profitability
FIGURE 14	Believe that franchising will restrict freedom in running business
FIGURE 15	If possible, whether the interviewee will choose to enter a franchising agreement
FIGURE 16	Reasons for not preparing to join franchising business
FIGURE 17	Knowledge of franchising
FIGURE 18	Monetary reward is a very important measurement in running a business
FIGURE 19	Monthly turnover
FIGURE 20	Net profit margin
FIGURE 21	Working environment is a very important measurement in running a business
FIGURE 22	Work load is a very important measurement in running a business
FIGURE 23	Hours of operation in a day

CHAPTER I

INTRODUCTION

A revolution began a few decades ago and is gathering speed in the 1980s and the 1990s. The revolution is in the retailing business. Just as Newton's discovery of the Law of Gravity affected the direction of scientific studies, so too the retailing revolution is affecting buying in the twentieth century. Retailers are pursuing innovations in effectiveness and competitive fervour. During the past decade, two trends in the retail business are especially dramatic.¹

The first is the growth of the limited-line specialty store, which features narrow product lines but wide assortments. Hence, the service needs of customers can be met on a personalized basis. This is often tailored to specific life-style segments.

A second trend is the growth of mass merchandisers. They provide strong price appeal based on economies associated with self-service and operational efficiencies. They also offer wide assortments to consumers. Caught in the middle are the

¹ Roger D. Blackwell and W. Wayne Talarzyk, "Lifestyle Retailing :Competitive Strategies for the 1980's", Journal of Retailing, 59, Winter 1983, p.7-27.

conventional outlets, which have increasing trouble competing and surviving.

In Hong Kong, supermarkets, being the mass merchandisers, are dominating the retail market and the traditional stores, being the conventional ones, are facing difficult situations. In recent years, another form of retail stores was introduced in Hong Kong and they started to compete with the supermarkets and the traditional stores heavily in the retail business. They are the convenience stores.

The number of convenience stores in Hong Kong grows rapidly during the past decade. It has a high degree of impact on the retail business. The major competitive advantage that convenience stores offer to their customers is convenience. As Hong Kong people is concerning more and more about the cost of time and convenience during shopping, the development of the convenience stores in the territory is very rapid during the past few years. However, can they continue their expansion with the same rate in the coming years? Is the market already saturated with this kind of stores? If it is not saturated, in order to cope with the expansion of the market, these companies may have to establish new stores in a pretty fast rate. Regarding the growth strategies, franchising may be one of the many alternatives for these companies.

This research project attempts to answer the above questions. We will examine the current market situation of

the industry. The degree of market saturation of the convenience stores and the consumer buying patterns in these stores will be studied. Through these studies, we will try to identify whether there is space for the expansion of the industry and the consumers' acceptability of the convenience stores concept. Once, the opportunity for expansion is ensured, we will go on to discuss the possible ways of expansion for the industry. Franchising is identified as one of the appropriate alternatives for the growth of the industry. Therefore, we will also examine the feasibility of adopting franchising as a growth strategy for this industry in Hong Kong.

We conducted two surveys in this research project in order to supplement our findings from the literature review and the interviews with the management team in the industry. The first one examines the consumer buying behaviour in Hong Kong. The result will be analyzed to examine the growth potential of convenience stores as a retailing concept in Hong Kong. The second survey is conducted on a group of potential franchisees to investigate their acceptance of the concept of franchising. The result is analyzed to identify the possible barriers to the concept of franchising as a successful growth strategy for convenience stores.

In Chapter II, we will summarize our findings on the growth potential of the convenience stores. Degree of market saturation will be examined. Then, in Chapter III, we will

review the evolution of the retail business and the future of the development of the convenience stores in Hong Kong. In Chapter IV, some common growth strategies will be discussed. As franchising is identified as an appropriate strategy, it will be further explored in Chapter V.

In order to support our findings and conclusion, two surveys were conducted. In Chapter VI, we will discuss our first survey on the consumers behaviour. This survey attempts to determine the acceptability of the convenience stores concept among the general public. In addition, a comparison of the purchasing behaviour among the convenience stores, the supermarkets, and the traditional stores was done. Retail outlets preference according to various income and education level will also be discussed. In Chapter VII, we will summarize our findings of the second survey. This survey focuses on the suitability, feasibility and acceptability of choosing the traditional store owners as potential franchisees.

After the review of the current market situation; the consumers perception on the convenience stores and their purchasing behaviour; the possible growth strategies, especially the franchising concept; and the feasibility of adopting the idea, we will conclude the implications of all these findings and propose some recommendation to the industry in Chapter VIII. Finally, in Chapter IX, we will conclude the whole paper.

Through this research report, we are hoping to give an insight of the development the convenience store business in the territory. In addition, we also try to come up with a recommendation for the future business strategy of the industry. We hope that this research report will act as a good reference for the management team within the industry to plan for the direction of their business development.

Summary

This chapter set out to explain the focus, concept and scope of this paper and to propose a framework for approaching the subject. We hope that by this stage, readers will have a basic understanding on the aim of this research project, the situation that the convenience store industry is facing, and what will be covered in the content of this paper. However, before we come to our conclusion, we shall examine the current market situation. We will discuss this in Chapter II.

CHAPTER II

GROWTH POTENTIAL OF CONVENIENCE STORE

Degree of Market Saturation

During the past several years, the number of convenience stores has increased dramatically. There are two main convenience chain stores, namely, 7-ELEVEN, and CIRCLE K, in Hong Kong. There are also some smaller convenience stores in the market. In the year ended 1989, there are more than three hundred convenience stores in the territory. Two hundred and thirty-four of them belong to the Seven-Eleven Group while another sixty-two belong to the Circle K Group.

Although the number of the convenience stores is still increasing, its growth rate has slowed down last year. Therefore, the most interesting question is whether this slowing down is due to a saturated market or to other factors. Interviews have been conducted with the management of the two major convenience chain store groups to gather their opinion on the degree of market saturation of the convenience store business.

After the interviews, we can summarize their ideas into several points. First of all, both companies believe that there is still space for the development of convenience stores

in Hong Kong. According to the management team of the Circle K Group, they estimate that every 6,000 people should be able to support one convenience store. As Hong Kong has more than 6,000,000 people, the territory should be able to hold at least 1,000 convenience stores before the industry is saturated. Hong Kong at present has around three hundred convenience stores only and so the market should be far from saturated.

Nevertheless, the growth rate in the number of new stores is decreasing in the past year despite of their belief in the existence of opportunity in the unsaturated market. Both companies believe that the main cause of the restriction for their growth is the high operation cost, especially the high rental cost in certain districts and high labour cost. Although there may be a need for a convenience store in some areas, the high rent discourages the investment in such areas.

Although the development of convenience store industry in the territory is constrained by the high rent, both companies are quite optimistic about their development in the future. They believe that, although it might not be practical for them to open some new stores in very busy areas such as Central and Tsimshatsui due to the high rent, there are many opportunities in the New Towns. The development of New Towns and new residential areas will definitely offer new potential markets for convenience stores.

Summary

In this chapter, we have reviewed some of the current issues that the convenience stores are facing. They include the high rental and labour cost, which had inhibited the growth rate of the industry. However, the management team of both the Seven-Eleven and Circle K Group believe that the market is not saturated and there should be much space for expansion. New residential areas and the New Towns are definitely the ideal locations for them to open new stores as the rental cost is much lower. Therefore, it will be less risky and more profitable for them to open new stores in these areas.

After the review of the industry situation, we have drawn the conclusion that the market is not saturated and both of the two convenience chain store groups have the intention to expand their business. Here then, comes to the point of how they can do so and through what ways should they implement their expansion intention. In the following three chapters, we will review the current situation of the industry from the view-point of the evolution of the retail business. We will also try to look at some of the expansion strategies that may be applicable for the expansion of the industry. Through these reviews, we intend to propose some practical methods which may be appropriate for the companies within the industry to adopt as their growth strategy.

CHAPTER III

CONVENIENCE STORE - EVOLUTIONARY CHANGES IN THE RETAIL BUSINESS

In Chapter II, we have discussed the degree of market saturation of convenience stores in Hong Kong. Practitioners in the industry believe that the industry still has development potential. In this chapter, we attempt to find out the growth potential of convenience store industry from the view point of the retail business cycle. We shall also discuss Dalrymple's theory on the rise of a form of retail outlet. Before discussing various theories on the life cycle of various retail outlets, we shall briefly review the mode of operation of some popular retailing institutions in Hong Kong, namely, the traditional stores, the supermarkets, and the convenience stores.

Traditional Stores, Supermarkets and Convenience Stores

Traditional stores, supermarkets and convenience stores are classified into limited-line retail outlets.¹ These retail outlets are popular in Hong Kong. This section attempts to analyze their mode of operation.

¹ John L. Beisel, Contemporary Retailing, New York: Macmillan Publishing Company, 1987, p.35.

The traditional store, in the form of specialty store, has a long history in Hong Kong. Generally speaking, these grocery stores are small scale family owned businesses, and serve customers in the neighbourhood. They specialize in selling limited items, like rice, canned food, and other daily necessities.

Supermarkets, on the other hand, have a larger shop space, employ mass merchandise techniques, and charge less than normal prices. They also apply to the self-service concept in order to reduce overhead expenses.

A convenience store is a combination of traditional store, drug store, fast food shop and supermarket. Generally speaking, a convenient store is smaller than a supermarket; carries fewer items; and charges a higher price.² Nevertheless, "most customers patronize the convenience store in order to supplement their weekly food purchases rather than to do all of their grocery shopping. In addition, the majority of the convenience store's customer do not leave home specifically to shop there, but will visit the store to pick up an item or two while travelling to some other location for purposes other than grocery shopping."³

² Kwan-yee Cheung, "Chain Store: A New Form of Retailing", Economic Reporter, September 1, 1986, p.5. (in Chinese).

³ John L. Beisel, Contemporary Retailing, New York: Macmillian Publishing Company, p.42.

Life Cycle of Retailing Institutions

The traditional store has the longest history in Hong Kong, while convenience store has the shortest. Various explanations have been put forth to explain the evolutionary changes in retailing institutions. These include (1) natural selection, (2) differential advantage, (3) the retail accordian (sic), (4) the wheel of retailing, (5) the retail life cycle, (6) crisis change, (7) the dialectic process.⁴ Yet no one approach has been able to satisfactorily explain such change.

Dalrymple's Theory on Retail Outlets

Nonetheless, changes in consumer life styles have been identified as an agent for retailing institutional changes.⁵ It has been found that "as consumer incomes increase, so do their expectations; the higher the income, the more the emphasis placed on getting what is wanted, at the time it is desired; the higher the income, the more able consumers are to define their needs and to state their frustrations in precise terms; the higher the income, the greater the realization of costs of search in time and money; the higher the income, the more the frustration evidenced over advertised goods being out of stock; the higher the income, the more the

⁴ ibid. p.52.

⁵ Douglas J. Dalrymple & Donald L. Thompson, Retailing: An Economic View, New York: The Free Press, 1969, p.356.

resistance shown to slow, inefficient clerks or clerks engaging in high pressure selling; the lower the income, the less interest in specialty stores, the greater the feeling that such establishments are overpriced; the lower the income, the greater the reliance on brand names, the less the confidence felt in one's own ability to judge fashion and quality; the greater the reliance placed on the retailer for advice."⁶

Economic Growth and Convenience Stores

Hong Kong witnessed a huge growth in the economy in the last few decades, and hence a rise in per capita income of Hong Kong people. The increased disposable income enjoyed by Hong Kong people has led to a shift in buying behaviour. Such a shift stimulates the growth of supermarkets and convenience stores to compete against traditional neighbourhood grocery store. Hong Kong's economy should continue to boom in the future and so the convenience store industry should have further development potential.

Summary

Although Beisel finds that no one theory has been able to explain the evolutionary changes in retailing institutions, Dalrymple and Thompson identify changes in consumer life styles as an agent for retailing institutional changes. Hong

⁶ *ibid.* p.362.

Kong's economy experienced a large growth in the last few decades. Such a growth leads to a shift in buying behaviour of Hong Kong people, and explains the evolutionary changes in the retailing industry.

Having surveyed various theories on the rise of a type of retail outlet, in Chapter IV, we shall review the strategies that a company may employ in expanding its business. Such review should give an insight into how can an existing convenience store expand its business.

CHAPTER IV

GROWTH AND EXPANSION

In Chapter III, the mode of operation of traditional stores, supermarkets and convenience stores was introduced, as were various theories on life cycle of retail outlets. Finally, Dalrymple's theory of retail outlets and the economic growth of Hong Kong were employed to explain the changes in the retailing institutions. Subsequently, the growth potential of convenience stores was recognized.

Most organizations are concerned with growth as a major objective, especially during periods of expansion. This chapter sets out to provide a discussion of the popular growth and expansion strategies. The first part of the chapter is concerned with the three "pure" types of growth development. The second part of the chapter then focuses on internal reorganization as an alternative for growth.

Johnson, Scholes & Sexty identify three "pure" types of methods of growth development: internal development, acquisition, and joint development.¹

¹

G. Johnson, K. Scholes, and R.W. Sexty. Exploring Strategic Management. Scarborough, Ontario: Prentice-Hall Canada Inc., 1989, p. 191.

Both Channon² and Sutton³ provide a detailed picture of the role of acquisition/mergers as a means of strategic development in British industry. Their major conclusions are that development by acquisition tends to go in waves (for example 1898-1900, 1926-29, 1967-73, and 1885-87), interspersed with long periods where most development (as measured by new investment) occurs internally. Similar patterns of activity have been observed in the United States and other developed countries.⁴

Internal Development

For many organizations, internal development has always been the primary method for growth.⁵ Organizations can develop internally by achieving growth in turnover of existing activities, and by diversification.⁶ There is something intrinsically attractive about simply continuing to do what you have done in successfully in the past.⁷ If generic growth

² D.F. Channon. Strategy and Structure of British Enterprise. New York: Macmillan, 1973.

³ C. J. Sutton. Economics and corporate Strategy. Oxford: Cambridge University Press, 1980.

⁴ G. Johnson, K. Scholes, and R. W. Sexty. Exploring Strategic Management. Scarborough, Ontario: Prentice - Hall Canada Inc., 1989, p. 193.

⁵ *ibid.* p. 193.

⁶ Michael K. Lawson. Growing for Growth. London: Kogan page Ltd., 1987, p.62.

⁷ *ibid.* p.62

is not always the best solution, diversification will achieve the growth goal.⁸ Very often, particularly with products highly technical in design or method of manufacture, companies may choose to develop new products themselves since the process of development is seen as the best way of acquiring the necessary skills and knowledge to exploit the product and compete successfully in the market place. A parallel argument would apply to the development of new markets by direct involvement.⁹

Some valid reasons to develop internally by diversification are that it offers a solution to some of the problems of a one-product/one-service company. In addition, the market the organization presently addresses may not offer the capacity to allow it to grow at the rate it would like. Furthermore, diversified products/services may help to sell items already in the range. Lastly, diversification may offset some of the problems of a cyclical business.¹⁰

Although the final cost of developing new activities internally may be greater than it would be by acquiring other companies, the spread of cost may be more favourable and realistic. A related issue is that of minimizing disruption

⁸ ibid. p. 64-5.

⁹ G. Johnson, K. Scholes, and R. W. Sexty. Exploring Strategic Management. Scarborough, Ontario: Prentice-Hall Canada Inc., 1989, p.193.

¹⁰ Michael K. Lawson. Going for Growth. London: Kogan Page Ltd., 1989, p.117.

to other activities.¹¹

Companies may, in reality, have no choice about how new ventures are developed. Companies breaking new ground are not in a position to develop by acquisition or joint development since they are the only ones in the field. On many occasions, organizations which would prefer to develop by acquisition cannot do so since they cannot find a suitable company willing to be bought out.¹² This has been cited as a particular difficulty for foreign companies attempting to enter Japan.¹³ Internal development also avoids the often traumatic behavioural problems arising from acquisition.¹⁴

Acquisition

Perhaps the most compelling reason to grow by acquisition is the speed with which it allows the company to enter new product/market areas.¹⁵ A number of other reasons to consider acquisition are the availability of time, lack of expertise, to gain an introduction into a market, to obtain a client list

¹¹ G. Johnson, K. Scholes, R. W. Sexty. Exploring Strategic Management. Scarborough, Ontario: Prentice-Hall Canada Inc., 1989, p. 194.

¹² *ibid.* p.194.

¹³ J. Capito. "Joining with Japan." Management Today, April, 1983.

¹⁴ M. Fenton. "Tale of a Takeover." Management Today, September, 1979, p.78-81.

¹⁵ G. Johnson, K. Scholes, R. W. Sexty. Exploring Strategic Management. Scarborough, Ontario: Prentice-Hall Canada Inc., 1989, p.194.

or to obtain assets.¹⁶

Also, an established company in an industry may acquire a competitor either for the latter's market share or to shut down its capacity to help restore a situation where the market equilibrium is more balanced and trading conditions are more favourable.¹⁷

Sometimes there are reasons of cost efficiency which would make acquisition more favourable. An established company may already be a long way down the learning curve and may have achieved efficiencies which would be difficult to match quickly by internal development.¹⁸

Joint Development

Joint development of new products/new services/new markets has become increasingly popular since the early 1970s. There are now four different types of joint development: joint ventures, franchising, licensing, and agents.¹⁹

¹⁶ Michael K. Lawson. Going for Growth. London: Kogan Page Ltd., 1987, p.135.

¹⁷ G. Johnson, K. Scholes, and R. W. Sexty. Exploring Strategic Management. Scarborough, Ontario: Prentice-Hall Canada Inc., 1989, p.195.

¹⁸ *ibid.* p. 195.

¹⁹ *ibid.* p.195.

Joint Ventures

Joint ventures²⁰ are formal agreements between two or more corporations to another entity in which all have an equity interest. The partners are able to accomplish tasks or become involved in projects, which likely would be impossible to undertake individually.²¹

Franchising

Franchising²² is perhaps the best known and most common type of joint development. Each of the parties of the agreement has a particular strength, or interest, in only part of the development process and these two interests are complementary.²³

Licensing

Licensing²⁴ arrangements are a form of franchising common in science-based industries, such as chemicals.

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- ²⁰ K. R. Harrigan. Managing for Joint Venture Success. Lexington, Mass: Lexington Books, 1986.
- ²¹ G. Johnson, K. Scholes, R. W. Sexty. Exploring Strategic Management. Scarborough, Ontario: Prentice-Hall Canada Inc., 1989, p. 195.
- ²² N. Menelsohn. Guide to Franchising. 3rd ed. Oxford: Pergamon Press Limited, 1982.
W. L. Seigel. Franchising. New York: John Wiley and Sons, Inc., 1983.
- ²³ G. Johnson, K. Scholes, R. W. Sexty. Exploring Strategic Management. Scarborough, Ontario: Prentice-Hall Canada Inc., 1989, p.195.
- ²⁴ C. Edge. "Britain's Innovation Trap." Management Today. November, 1985, p.82-7.

Agents

Agents have been used in joint developments for many years. Many companies develop overseas markets by using local agents not only because of their better local knowledge but also because this is the most cost efficient way to operate.²⁵

Internal Reorganization

Organizations can grow by doing more of what they are already doing now, and they can grow by starting to do something new, by diversification, by acquisition, or by joint development. There is, however, the possibility of growing less. Many established companies, especially the international conglomerates have been re-examining their corporate structures, identifying those parts of the group that are either not adequately profitable or do not fit the corporate plan, and dispose of them.²⁶

Summary

Much of the discussion of this chapter has been built around the assumption that organizations are concerned with growth and expansion as their major objective. Clearly, if organizations wish to grow, they can expand by generic growth or diversification through internal development, acquisition,

²⁵ G. Johnson, K. Scholes, R. W. Sexty. Exploring Strategic Management. Scarborough, Ontario: Prentice-Hall Canada Inc., 1989, p. 197.

²⁶ Michael K. Lawson. Going for Growth. London: Kogan Page Ltd., 1987, p.67.

and joint development. In particular, joint development is becoming increasingly popular as an efficient way for organizations to grow. Organizations can form an alliance by forming joint ventures, by franchising, by licensing, and by using agents.

While the justification of growth and expansion is undoubtedly valuable to a large number of organizations, there are also many organizations, either by choice or circumstances, and especially during periods of recession, would feature internal reorganization as their major objective.

The choice between growth strategies is largely dependent on the particular circumstances of any one organization. Franchising as a means of expansion will be discussed in detail in Chapter V.

CHAPTER V

FRANCHISING

The various strategic growth options, namely, internal development, acquisition, joint development, and internal reorganization, that organizations might pursue were identified in Chapter IV. Franchising as a popular growth strategy has been mentioned. There is an important link of franchising to the concept of growth potential of the retailing institutions introduced in Chapter III. In fact, companies have employed this growth strategy to develop convenience store business.

The emphasis in this chapter is on franchising. The chapter follows a step-by-step discussion of the franchising concept, an overview of franchising in the United States, United Kingdom, and Australia, the advantages, disadvantages, and the benefits of franchising as a growth strategy, and finally, the future development of franchising.

Definition of Franchising

A broad definition of franchising is: "An arrangement whereby the manufacturer or sole distributor of a trademarked product or service gives exclusive rights of sole distributor

to independent retailers in return for their payment of royalties and conformance to standardized operating procedures. A party granting such right (or franchise) is known as the franchiser, while the recipient is called the franchisees."¹

A more pragmatic definition of franchising is : "A technique that helps expedite accelerated market expansion and the acquisition of dedicated entrepreneurial management, utilizing the OPM (Other People's Money) principle."²

Franchising can also be described as a form of marketing or distribution in which the parent company, the franchiser, gives the franchisee the right or privilege of conducting business in a prescribed manner over a certain period of time in a specified place. Franchises may be grouped into Four broad categories: Manufacture-retailer, manufacturer-wholesaler, wholesaler-retailer, and tradename-trademark.³

Another classification of franchising involves a franchiser selling the right to use a company's trademark, name, or even business format to a franchisee in return for an initial fee and royalty payments. Product or trade-name

¹ David D. Seltz. The Complete Handbook of Franchising. Reading, Massachusetts: Addison-Wesley Publishing Company, Inc., 1982, p. 1.

² ibid. p.1.

³ T.C. Carbone. "Formula for Success : franchising Means Having a Business Without All the Risk." Management World. Mar/Apr 1989, p. 32-3.

franchising refers to a distribution system in which the franchisee is licensed to sell items made by the franchiser. Business format franchising generally includes a marketing plan, an operating plan, and quality control. The success of business format franchising has led to conversion franchising, in which an independent company converts to a franchise operation.⁴ For many business, conversion franchising can be the best way to grow, particularly in a highly competitive environment.

Overview of Franchising

United States

According to the International Franchise Association (IFA), another person joins the ranks of the over 500,000 franchisees in the US every 15 minutes. Franchising has become a strong economic indicator of the overall direction and health of the U.S. business climate. IFA's John Reynolds says that franchise grows by 10 percent annually.⁵

Today franchises account for about 33 percent of the retail sales in the U.S., however, by the year 2000, that number will reach 50 percent. At least 200 new franchisers enter the market place each year, along with 35,000 new

⁴ William Austin. " Opportunities in Franchising." Occupational Outlook Quarterly. Fall 1986, p.13-19.

⁵ Meg, Whittemore. "From Paths to Franchising." Nation's Business. October 1989, p,75-85.

franchise outlets.⁶

The US Commerce Department puts the failure rate of franchises at less than 4 percent.⁷

United Kingdom

In the last ten years, the franchising business has expanded dramatically---the number of franchisers has multiplied, and the number of franchisees has increased. A recent report indicated that franchising now accounts for 169,000 jobs in the UK, a 35 percent over last year. Sales through franchising exceed 3.1 billion sterling, nearly a 40 percent rise over the last year. A comparison of small businesses with franchises indicated that, after a 5-year period, 80 percent of small businesses had ceased operations, while over 80 percent of franchised businesses were still trading after a 10-year period.⁸

AUSTRALIA

Conservative estimates suggest that franchised business now accounts for over 20 percent of all retail sales in Australia, with about 500 franchisers operating through about

⁶ Richard Poe. "A New Market Explodes : Ideas That Make millions Serving Franchises." Success. September 1989, p.66-71.

⁷ Faye Rice. "How to Succeed at Cloning a Small Business." Fortune. October 28, 1985, p.60-66.

⁸ Derek Ayling. "The Universe of Franchising." Management Today(UK). April 1988, p.115-121.

7,000 franchisees. The US Department of Commerce predicts that franchising will be the leading business vehicle in the US in the 1990s. The same trends are apparent in Australia. Offshore franchising is also increasing as Australian franchisers, their systems, and concepts mature.⁹

Growth and Expansion through Franchising

Advantages

Seltz (1982)¹⁰ list a number of advantages of franchising. Franchising provides wider and more rapid expansion. It allows expansion with less capital, and requires fewer company personnel and lower payroll. It also reduces operating expenses. Franchising can achieve selective distribution in each territory. It attracts dedicated local entrepreneurs who are "locked in ", known, and respected in their communities. Results in sales- and cost-conscious franchisees who will probably perform better than salaried managers and will be more likely to suggest money-saving ideas and merchandising innovations. To a certain extent, franchising improves company image, public relations, and publicity. It also attracts capital, and builds equity in the business. Lastly, it creates economies of size resulting in expansion.

⁹ Andrew Terry. "Franchising Fever." Australian Accountant (Australia). July 1989, p. 29-34.

¹⁰ David D. Seltz. The Complete Handbook of Franchising. Reading, Massachusetts: Addison-Wesley Publishing Company, Inc., 1982, p.7.

Disadvantages

Franchising, on the other hand, also has some disadvantages. (Seltz 1982)¹¹ cited a number of them. Franchising, invites a high cost of supervision. (Franchisees often need more assistance and guidance than originally planned.) It sometimes leads to some loss of control. (The independent franchisee must often be convinced of the need to do things in a prescribed manner.) Freedom of action is restricted. A major change in company policy, such as the addition of a product line, may have to be negotiated individually with each franchisee. Franchisees may lose their initial drive. They may be satisfied with whatever income they are deriving from the business and unwilling to consider expansion or the further development of their market. Lastly, expansion may be too rapid, and franchisers can overextend themselves financially.

Future Development of Franchising

Business format operations now form the bulk of franchising activity and represent the most highly developed relationship between franchiser and franchisee. The continuing success of franchising will rest largely on the performance of franchisees and on the way in which they

¹¹ ibid. p.8.

respond to their franchisers.¹²

Business format franchisees now account for one-third of all retail sales and are projected to grow to half of retail sales by the year 2000. Futurist John Naisbitt of Naisbitt Group (Washington,DC) predicts the continued growth of franchises for the next 25 years.¹³

Conversion franchising is also becoming increasingly attractive to both franchisers and potential franchisees. It can enable the franchiser to grow quickly and the franchisee to compete with other chains which may be claiming market share in an industry.¹⁴

Conversion is the most common growth strategy among the top 100 franchisers, although acquisition is a less limited strategy.¹⁵

The practice of franchising has gained vitality in the last decade. It will continue to be an extremely efficient method of marketing and distributing products or services in the next decade.

¹² Mary Brandenburg. "Franchising into the Nineties." Accountancy (UK). February 1989, p. 143-5.

¹³ Meg Whittemore. "Franchising's Future." Nation's Business. February 1986, p. 47-53.

¹⁴ Ripley Hotch. "Converting to a Franchise." Nation's Business. June 1987, p.28-34.

¹⁵ Sallie Hofmeister, Michelle Hirsch, Frances Marshman, and Christina Schlank. "On the Road to Ubiquity/The Franchiser 100." Venture. November 1986, p.48-57.

Summary

This chapter has reviewed the franchising concept, and the effect of franchising systems on the present status and future growth of organizations in the United States, United Kingdom, and Australia. The advantages, benefits, and disadvantages associated with franchising need to be understood and analyzed as an essential background against which franchising can be planned and effected successfully as a growth strategy.

The extent to which franchising might be accepted by the consumers and the extent to which it might suit the different retailing institutions would be evaluated at a detailed level in the following two chapters. Chapter VI presents the findings of a consumer buying behaviour survey which investigates the feasibility and acceptability of convenience stores as compared to the traditional stores and supermarkets. Chapter VII presents the findings of a survey on acceptance of franchising. The possibility of implementing the franchising concept on the owners of the older retailing establishment is explored.

CHAPTER VI

CONSUMER BUYING BEHAVIOUR SURVEY

After reviewing some of the growth strategies and the market situation, we found that franchising may be a good way for the expansion of the industry. However, before the companies actually adopt this growth strategy, there are certain areas that should be considered. In Chapter II of this paper, we have drawn the conclusion that there is space for the expansion of the industry. The main reason for drawing this conclusion is the positive attitude of the management of the two major convenience store groups in the territory. However, in order to supplement their opinion, we believe that information from the consumers' point of view should also be considered. In addition, in order to implement the franchising concept, information from the potential franchisees should also be gathered and analyzed.

In this Chapter and the next one, we will focus our discussion on two surveys which we have conducted to deal with the issues that have been mentioned above. In each survey, we will identify the major objectives of the survey, the propositions, the method being used and the result and its implication.

Proposition

Demographic Factors

According to the idea of J.F. Engel, R.D. Blackwell and P.W. Miniard, consumer buying behaviour is mainly due to the perception of the product and their past experience. The demographics such as education level, occupation, income and age will also directly influence one's perception.¹ Therefore, in order to study the consumer behaviour, it will be better to classify the data into different demographic groups and analyze them independently.

Preference of Various Retail Outlets

As the products being offered in a convenience store are very similar to that of a supermarket and a traditional store, we consider them as direct competitors. However, as the price and the business philosophy in these three types of retail outlets are quite different, their customers and the behaviour of their customers may be different. Supermarkets, offering the lowest price in most items, are focusing on the competitive advantage of offering the best price for consumers

¹ James F. Engel, Roger D. Blackwell, Paul W. Miniard, Consumer Behaviour, Chicago: The Dryden Press, 1986, p.21-39.

and a shopping place for all household items. Convenience stores and traditional stores, on the other hand, focus on the idea of convenience for their customers. Due to the difference in their business philosophy, their store image is also different. This store image will directly and indirectly influence consumers' purchasing patterns as well as the kinds of consumers purchasing in the store.² As a result, we hypothesized that the higher income group, who are able to pay more, will be more willing to pay a higher price in the convenience stores in order to get the convenience.

Retail Outlet Choice

Store choice is a complex process consisting of four variables: evaluative criteria; perceived characteristics of stores; comparison process; and acceptable and unacceptable stores. In general, the determinants of store choice are location, nature and quality of assortment, price, advertising and promotion, sales personnel, service offered, physical attributes, store clientele, store atmosphere, and post-transaction service. These factors are the salient factors for retail outlet choice.³

² Peter Doyle and, and Ian Fenwick, "How Store Image Affects Shopping Habits in Grocery Chains", Journal of Retailing, 5, Winter 1974-75, p.39-52.

³ James F. Engel, Roger D. Blackwell, and Paul W. Miniard, Consumer Behaviour, Chicago: The Dryden Press, 1986, p.499-512.

Survey Objective

The major objective of this consumer buying behaviour survey is to analyze the acceptance of convenience stores and hence its development potential from the consumers' point of view. Therefore, the survey is designed to explore some of the people's buying pattern in a convenience store and other common retail outlets. Moreover, factors influencing their choice of retail outlets are also surveyed. Through the study of the consumer behaviour in different retail outlets, we hope to distinguish their different perceptions over various outlets as well as the degree of acceptability of these outlets.

Methodology

Sampling design and coverage

This survey uses a questionnaire to gather the required information. The questionnaire is designed according to the propositions as mentioned in the above section. As the objective of this survey is to analyze the acceptability of the convenience store concept among the consumers and their purchasing behaviour in convenience stores, the questions being included are the purchasing items, transaction amount and the frequency of purchase in a convenience store. As supermarkets and traditional stores are direct competitors of the convenience stores, consumer behaviour in these two outlets are also included for comparison.

A convenience sampling technique is employed in this survey. Totally five hundred questionnaires were distributed to people of different ages, sexes and education level on the street.

Data analysis method

After the collection of the questionnaire, data is entered into a data base file for analysis. Data are analyzed according to the demographics such as household income and education level as we believe that these demographic factors will have direct influence in the purchasing behaviour of consumers. In addition, the acceptability of the convenience stores concept may be different due to the difference in these demographic characteristics.

Results and Analysis

Result summary

Among the five hundred questionnaires distributed, four hundred and fifty-five were collected. Among those collected, four hundred and twenty-two were analyzed. A summary of the data collected is appended in Table 1. In addition, the findings are grouped and analyzed according to the transaction amount, shopping frequency, items purchased and factors for site selection.

Detail result analysis

Transaction amount

The average transaction amount in supermarkets is \$48.5 which is higher than that of convenience stores of \$18.2 and that of traditional stores of \$16.6 (see Fig. 1).

It seems that consumers do the bulk shopping in supermarkets, and that consumers buy from convenience stores and traditional stores for convenience purpose.

We also analyze the average transaction amount with reference to the income. Fig. 2 shows that the higher the income, the higher the average transaction amount in supermarkets and traditional stores. However, such relationship does not apply to buying from convenience stores.

Shopping frequency

Our sample buys on average 1.77 times per week from supermarkets, compared to 1.29 times from convenience stores and 1.24 times per week from traditional stores (see Fig.3).

Coupled with a higher transaction amount in supermarkets, an average consumer spends most in the supermarkets and least in the traditional stores (see chart 4).

The shopping frequency is also analyzed with respect to education level. Our sample indicates that consumers with different education level show more or less the same shopping frequency in convenience stores (see Fig. 5 and 6).

Items purchased

Item-wise speaking, snacks is the most common item

purchased in the convenience stores. It accounts for more than 40 percent of the purchased items. Personal hygiene products and canned-food, rice and edible oil together account for another one-third of the items. Other items like household cleaners, fruits, vegetables and meat, and stationery account for the remainder (see Fig. 7).

Fig. 8 shows that snacks is still the dominating shopping item in supermarkets. However, canned-food, rice and edible oil become more common in the shopping list in the supermarkets. Personal hygiene products place third, accounting for 19.3 percent of the items purchased. Household cleaners; fruits, vegetables and meat; and stationery account for 13.4 percent, 10.7 percent, and 5.5 percent respectively.

Fig. 9 summarizes our findings for the common purchasing items in traditional stores. Snacks and stationary account for the most and the least in the shopping items list. Other edible items, like canned-food, rice and edible oil, meats, vegetables are also main items on the shopping list.

Fig. 10 summarizes the overall patterns of shopping items. It is obvious that the patterns are similar. Customers for each retail outlet display a similar pattern in the items purchased.

Salient Factors for Retail Outlet Selection

Fig. 11 shows the weighted importance of each salient factor for retail outlet selection. Each factor is weighted according to each subject's responded importance level and the

weighted score is used to calculate the importance of each factor with respect to all the factors.

The result shows that people considered location, convenience, price and nature & quality of assortment as the most important factors in choosing where to purchase among all the salient factors being listed. It should be noted that convenience plays a very important role here. This can act as an indirect indication of the success of convenience store concept in the territory.

Discussion and Implication

From the above findings, we noted that consumers' perception of the three different types of retail outlets are not very obvious in general. However, there is a clear indication of preference for shopping in a convenience store for the higher income group and more educated people. This matches with our proposition that various demographic classes of people will have different perception of the store image and have different preference over the type of retail outlets. As the GDP and the education level of the territory is rising steadily, it is obvious that the convenience store concept will be more acceptable in the coming future. On the other hand, the traditional stores will sooner or later fade out from the market.

Although consumers purchase more in supermarkets than in convenience stores, it is due to the different business

philosophy of the two retail outlets and not due to the difference in preference of the two outlets. Therefore, from the purchasing behaviour pattern that we have concluded in the above, it is obvious that people buy from convenience stores for convenience's sake. Together with the findings that convenience place high in the salient factors question, it is obvious that the convenience store concept matches an average consumer's expectation. All this lead us to the conclusion that there is no doubt for the acceptability of the convenience store concept in the territory. As a result, the conclusion of the potential for the expansion of the industry from the study of consumers' purchasing behaviour matches with that from the management's point of view as mentioned in Chapter II.

Limitation and Restriction

Sampling Error

As convenience sampling method is used, the sampling error cannot be computed. There may exist a possible error due to the biased sample and other sampling errors. Although in our sample, the age ranges from the youngest of 14 to the oldest of 65, the majority of the sample lies between 17 to 30. As a result, people in the sample tend to be a bit younger than the average population in Hong Kong. Therefore, their opinion may not truly reflect the actual states in the market.

Summary

In this chapter, we described one of the survey that we have done to review the acceptability of the convenience store concept. From our findings, we concluded that there is no doubt of the acceptability of the concept and the growth potential of the industry.

These findings coincide with the opinion of the management team of the two convenience stores groups. In addition, we also find that the traditional stores are facing a very difficult situation and it is predicted that they will fade out in the coming future. Therefore, as there is no doubt for the expansion of the convenience store business, here comes the question of "HOW?". As we have mentioned in the above chapters, we think that franchising will be a good alternative for expansion. Then, the second question will be "How to implement the concept?". In this survey, we find that traditional stores will be fading out in the coming future. Therefore, we think that the owners of these traditional stores may be excellent potential franchisees as they have enough experience in the retail business and have sufficient capital for investment. As a result, another survey, aiming at exploring the possibility of implementing the franchising concept on these traditional store owners is conducted. The detailed findings of the survey will be discussed in Chapter VII.

CHAPTER VII

SURVEY ON ACCEPTANCE OF FRANCHISING

Chapter V discusses the various advantages and disadvantages of adopting franchising as a growth strategy. Expanding the business by franchising is advantageous to the franchiser. Yet, people have to accept the franchising concept before this strategy becomes practical. This chapter discusses a survey done on a group of traditional store owners and small supermarket owners to investigate the feasibility of converting them into franchisees.

Proposition

Attitude Towards Franchising

Attitude affects behaviour. Churchill Jr. advocates that attitude represents a predisposition to respond to an object, not actual behaviour toward the object, attitude thus possesses the quality of readiness; attitude is persistent over time, alteration of an attitude that is strongly held requires substantial pressure; attitude is a latent variable that produces consistency in behaviour, either verbal or physical; attitude has a directional quality, it connotes a preference regarding the outcomes involving the object,

evaluations of the object, or positive-neutral-negative feelings for the subject.¹ The first proposition stated simply is: an individual's attitude towards franchising will affect his acceptance of it.

Monetary Reward as Motivation Factor

According to Maslow's Hierarchy of Needs, physiological needs are one of the five basic needs that require satisfaction.² These physiological needs therefore are powerful determinants of behaviour. We hypothesize that monetary reward should enable an individual to buy food and find shelter, satisfying his physiological needs and thus it is a powerful motivator. Franchising can promise a good monetary return. So, the second proposition is that monetary reward is a powerful motivator in motivating an individual to become a franchisee.

Non-monetary Reward as Motivation Factor

Herzberg's theory of motivation identifies hygiene factors and motivators as the two categories of motivation factors.³ Monetary reward belongs to the group of hygiene

¹ Gilbert A. Churchill, Jr. Marketing Research -- Methodological Foundations, 4th ed. Chicago: The Dryden Press, 1987, P.315.

² H.A. Murray, Explorations in Personality. New York: Oxford University Press, 1968.

³ F. Herzberg, B. Mauser, and B.B. Snyderman, The Motivation to Work, New York: Wiley, 1959.

factors. It cannot motivate. Other factors, the motivators, such as the job content, will motivate people. We hypothesize that, along with monetary reward, non-monetary factors like the flexibility in making decisions, working environment, etc should be powerful motivators. The third proposition is that a lack of these motivators will affect one's choice to become a franchisee.

Survey Objective

Franchising is one of the many alternatives for a company to expand rapidly. However, such a concept may have practical difficulties in Hong Kong. The aim of this survey is to explore the possibility of implementing the idea with the owners of the older establishment. Recommendations based on the research findings will also be made.

Survey Methodology

Coverage and Sampling Design

The survey is based on the samples selected by the Hong Kong Convenience Stores Ltd. to cover a percentage of traditional stores in Hong Kong. Stores that are closed on the day of the survey or that refused to assist in the survey are not included.

The sampling units for the survey are small traditional corner stores; small traditional grocery stores; small traditional bakeries; small stationery shops and others.

Survey Method

Exploratory interviews are conducted on existing franchisees and store managers of 7-eleven stores to explore issues pertaining to franchising in Hong Kong. A questionnaire is prepared (see Appendix II). The questions are set in accordance with the three proposition that we propose.

About 40 stores, are surveyed. The required information is collected by interviewing the store owners or the employees of the stores, based on the prepared questionnaire. The interview is designed to collect data on the nature and characteristics of individual stores, detailed information on the attitude of the interviewees towards franchising and their value judgement in running small business.

Survey Findings

Attitude Towards Franchising

The idea of franchising is not very well-received by the respondents. About 68.75 percent of them believes franchising needs huge investment (see Fig 12). Only 25 percent of them believes franchising will enhance the profitability of their business (see Fig 13). On the other hand, 37.5 percent of the respondents do believe franchising will restrict their freedom in running a business, compared with 12.5 percent who don't believe (see Fig. 14).

The open-ended question discovers that, most of these

store owners do not accept franchising as a good business option for them. Most of these people are in their early 50s'. They feel that franchising is only a means for the large corporations to drive those small companies out of business. They will have a "small potatoes" feeling even if they join as partners.

About 12.5 percent of the respondents will choose to become a franchisee, if possible (see Fig. 15). On the other hand, 50 percent of the respondents say they will not. Of those who say "no", most of them (57.14 percent) (see Fig. 16) give the reason of not wanting to change their status quo.

Coupled with a general negative feeling towards franchising and a low percentage of those who choose to become franchisee, our first proposition that an individual's attitude towards franchising will affect his acceptance of the concept is concluded to be valid, and a negative impression about franchising makes a respondent choose not to become a franchisee.

It should be noted that, however, the survey discovers that most of the respondents do not know exactly what is franchising (81.25 percent) (see Fig. 17). This is supported by the fact that a high percentage of no comment is reported in question 2 to 4 in the section "attitudes towards franchising" (see sample questionnaire in Appendix II). Such a high percentage of responses indicating a weak knowledge of franchising would imply that their attitude on the concept of

franchising, whether positive or negative, should not be strong.

Monetary Reward as Motivation Factor

Firstly, our respondents reply that monetary reward is important (see Fig. 18) (All of them either agree or strongly agree with the statement in question 1 in the section "value judgement", see Appendix II).

Secondly, their monthly turnover is mostly under 90 thousands (see Fig. 19) (90.91 percent). Net profit margin is mostly in the range of 16-20 percent (45.45 percent of the responses) (see Fig. 20). Consequently, their monthly income cannot be regarded as high.

Despite these two findings, however, there is only a small portion of them reply that they will choose to become a franchisee. So, it can be concluded that the second proposition that monetary reward is a powerful motivator in motivating an individual to become a franchisee is doubtful. The findings suggest that either monetary reward is not a good motivator or a very high reward is needed to motivate an individual to become a franchisee.

This conclusion is supported by the fact that our respondents doubt whether a franchise business could bring in more income for them. They are unwilling to take any risk at their age. Also, they are proud of being a boss and feel relaxed in running their present business. They are not

willing to be pushed by any other parties. In addition, psychologically, they think they are going to retire soon. They continue to run the business as a past-time.

Such non-monetary factors affect their choice to become franchisees or not and will be further discussed in the next section.

Non-monetary Reward as Motivation Factor

Our respondents consider a number of non-monetary factors in choosing between their existing business or becoming a franchisee of a convenience store.

The first factor is the job nature and the working environment of the business. About 75 percent of the respondents either strongly agree or agree that working environment is important (see Fig. 21), 68.75 percent either strongly agree or agree that work load is important (see Fig. 22).

The second factor is the freedom in running a business. Most of these store owners have already been accustomed to their own operating style, preferring a more flexible and self-controllable management style. They do not want to be bound by rules, regulations and any formal guidelines.

The third factor is the risk involved in running a business. Although most of them feel that running the business is becoming more and more difficult, they are not prepared to start the business in any other form. They just

want to remain stable and they will either run the business for as long as it can survive or until they are too old to do so. Moreover, some of them are expecting to retire soon.

The forth factor is their self-confidence in running a new business. Most of our respondents have already spent years struggling in their own business. Though they believe that their business may sooner or later fade out, they feel that they are too old and do not have sufficient energy in running a new business.

The last factor that our respondents consider is whether their children will take over the family business. Most of the store owners' daughters and sons are not involved in the family business. These young people are not willing to take over the business and would prefer to go their own way. Therefore, many of the respondents think that it would not be worthy for them to spend another 5 years' time to establish a new business which eventually, they will have to give up as their children are not willing to take over the business.

Convenience stores require a 24 hours working date. However, about 93.75 percent of our respondents operate less than 16 hours a day (Fig. 23). Working hours in convenience stores are considerably longer. It also requires its franchisees to conform to its formula of success, thereby reducing the franchisees' flexibility in decision making. Running a convenience store requires a franchisee to take a higher risk. In addition, they lack the confidence to run a

new business and that their children might not take over the family business. These factors influence them not to choose to become a franchisee.

To conclude, our findings prove that non-monetary factors, like the flexibility in making decisions, stability, job nature, and working environment affect an individual's choice to become a franchisee. Our respondents believe that franchising a convenience store business may not fulfil their needs of these items so that they would not choose to become a franchisee.

Limitation of the Research

Sample Error

As all our sample sites are those stores being provided by the company, there may exist a bias or sampling error. Since our survey mainly aims at finding out the attitudes of the traditional store owners on franchising, we should sample from all those stores. There exist a strong bias as all of the stores being interviewed are not facing any competition of convenience stores. These people may not understand the real difference of operation and impact of convenience stores on their business. Also, as they devoted most of their time only within a very small area near their homes and stores, they really have little background knowledge of convenience stores. This may exist as another main barrier for them to consider becoming a franchisee.

Sample Size

Our sample size is considered to be too small to have a general conclusion on the attitudes of the whole city's older establishment. It may reflect some of their attitudes but it should also be noted that it may only be part of their views.

Summary

Convenience stores may have a large potential in Hong Kong. Franchising is theoretically a good strategy to expand the industry. However, our survey finds that this concept is not well-received by our sample of existing store owners. Monetary reward is not sufficient to motivate them to become franchisees, or a very high monetary reward is needed. Other non-monetary factors affect their decision as well.

In Chapter VIII we will make a recommendation on how to successfully implement the franchising concept.

CHAPTER VIII

IMPLICATIONS AND RECOMMENDATIONS

After reviewing the two surveys, readers should understand more about the current situation and the opportunities that the convenience store industry is facing. In this chapter, we will try to explore the implications of our findings. Based on these implications, we will further suggest some recommendations to the management team of the industry.

Implications of the Two Surveys

In the previous chapters, we have presented the two surveys that we have conducted. In the first survey, we concluded that the consumers have accepted the convenience store concept. This, together with our discussion with the management team of the Seven-Eleven Group and Circle K, implies that there is a good potential for the growth of the industry in the territory.

The next question is how to explore this opportunity. From the review of the growth strategies, we have identified that franchising is a good alternative to expand in the industry. As a result, our second survey deals with the

possibility of implementing the franchising idea on the traditional store owners. However, our findings shows that its acceptance by existing store owners is doubtful. As a result, this implies that although franchising is a suitable and feasible strategy for the industry to explore the growth opportunity, it may not be acceptable by the ideal potential franchisees, such as the traditional store owners. However, as we believe that franchising is a good alternative and the acceptability of the idea can be changed through management efforts, we still recommended that franchising should be considered as the major growth strategy. In the following section, we will discuss some of the possible ways to deal with the problem of overcoming the barriers of acceptability.

Recommendations

Change People's Attitude on Franchising

If a franchiser wants to adopt franchising as growth strategy, he should first launch a promotion campaign with the objectives of promoting the idea of franchising to the public. The aim is to give a clear and positive idea of what franchising is, thereby improving the attitude of this group of potential franchisees.

Appeal to Younger Generation

We speculate that the younger generation would have a higher acceptance of the convenience store concept. In

and work hard to establish their own business, it is recommended that they may be targeted as potential franchisees. (The validity of this hypothesis has not been proved and so further research on this area is needed.) A franchiser may advertise that he is willing to establish a new store in a certain district and asks people to submit a proposal or directly contact the company. This may attract a lot of young, energetic people who are desiring to have their business to contact the company. In addition, as most of the traditional store owners rejected the franchising idea because they fear that their sons will not take over the business, it may be useful if the company can make more effort in persuading the latter group of people in running the business.

Search for Other Potential Franchisees

A company planning to expand through franchising has a lot of other sources of potential franchisees besides those owners of the older establishments. Possible franchisees will include the internal/existing pool of employees. They are more familiar with the company's policy and operation and will definitely devote more effort in running their own business. Another source will be the general public. There may be a lot of young, intelligent and energetic people willing to become partners of the company and they will form another potential pool of franchisees.

Internal Development

As franchising is not the only way for a company to expand, it is also suggested that the companies in the industry can also adopt other expansion strategies such as internal development. However, such a development will involve more capital investment and higher risk, the expansion rate through such method may be much slower than that through franchising.

Summary

This chapter discusses a few strategies that a convenience store company may employ to overcome the franchising barriers. Such strategies include changing people's attitude on franchising, appealing to the younger generation, and searching for other potential franchisees. In addition, expansion through internal development is also recommended.

CHAPTER IX

CONCLUSION

Our report starts with a review on the current market situation of the convenience store industry. It is found that the market is not saturated. Companies in the industry believe that growth of the industry is possible.

In addition to the gathering of opinion from the people in the industry, we also look at a number of theories regarding the evolutionary changes of the retailing industry. It is found that changes in consumer buying behaviour lead to the growth of convenience stores in Hong Kong, and such growth is expected to continue.

A number of expansion strategies that may be employed to expand a business are reviewed. The strategy of franchising is examined in detail since it is recognized as a good strategy and it is already in use in the industry.

To supplement the opinion of those in the industry as well as theories from books, we conducted two surveys. The first survey tries to find out the consumer purchasing behaviour. We find that most of the consumers have already accepted the convenience store concept. The survey also finds that consumers perception of purchasing in a convenience store

and in a supermarket is quite different. Consumers will usually purchase more items every time in a supermarket and the transaction amount is also higher than that in a convenience store. In addition, convenience and location are the two most salient factors for consumers in choosing the retail outlets.

The second survey tries to test the acceptability of the concept of franchising by a group of selected store owners. We find that most of the respondents have a negative attitude on the concept. Monetary reward is not enough to convert them into franchisees, or a very high monetary reward is needed. We also find that other non-monetary factors, like working environment, flexibility in decision making, etc. plays a very important role in influencing their decision to become a franchisee or not.

We then recommend a few strategies that make the franchising concept functional.

Our research report should be able to give an insight of the development of the convenience store business in Hong Kong. This report should also give a reference to those in the industry who wish to take advantage of the growth potential in the industry.

TABLE 1

A SUMMARY OF CONSUMER
BUYING PATTERN SURVEY

Sample size: 422

Male : 161

Female : 261

	Average
Age	22.54
Family size	5.06
Family monthly income	\$14,100
Shopping frequency (times per week)	
Supermarket	1.77
Convenience store	1.29
Traditional store	1.24
Average transaction amount in	
Supermarket	\$45.5
Convenience store	\$18.2
Traditional store	\$6.6
Mean score of the importance of the salient factors	
Location	3.31
Nature & quality of assortment	1.98
Convenience	3.17
Price	2.72
Advertising & promotion	0.65
Sales personnel	0.85
Service offered	0.54
Physical store attributes	0.52
Nature of store clientele	0.20
Store Atmosphere	0.63
Post-transaction service	0.54

CONSUMER'S ATTITUDES TOWARDS CONVENIENCE STORES, SUPERMARKETS
AND TRADITIONAL STORES

We are a group of MBA students from the Chinese University of Hong Kong. We are now conducting a market survey on people's attitudes towards purchase in any one of the following places - supermarkets, convenience stores and traditional stores. We would be grateful if you can spare us about five minutes in answering this questionnaire.

Please tick the appropriate boxes or answer the questions where necessary.

PART I

Personal information:

1. Sex:
2. Age:
3. Total number of family members:
4. Total family income: ☐ < \$5000
 ☐ \$5000 - \$10000
 ☐ \$10001 - \$15000
 ☐ \$15001 - \$20000
 ☐ > \$20000
5. Educational level: ☐ Primary School or below
 ☐ Middle School
 ☐ Tertiary education or above

PART II

6. During the past seven days, how many times have you bought in the following places?
 - a. Supermarkets ☐
 - b. Convenience Stores ☐
 - c. Traditional Stores ☐
7. The average transaction amount of these purchases are:

a. Supermarkets	b. Convenience Stores	c. Traditional Stores
<input type="checkbox"/> < \$10	<input type="checkbox"/> < \$10	<input type="checkbox"/> < \$10
<input type="checkbox"/> \$10 - \$50	<input type="checkbox"/> \$10 - \$50	<input type="checkbox"/> \$10 - \$50
<input type="checkbox"/> \$51 - \$100	<input type="checkbox"/> \$51 - \$100	<input type="checkbox"/> \$51 - \$100
<input type="checkbox"/> \$101 - \$150	<input type="checkbox"/> \$101 - \$150	<input type="checkbox"/> \$101 - \$150
<input type="checkbox"/> > \$150	<input type="checkbox"/> > \$150	<input type="checkbox"/> > \$150

8. Please tick three of the following items that you are most likely to buy when you are in a supermarket.
- ☐ Snacks & Drinks
 - ☐ Fruits, Vegetables, or Meat
 - ☐ Can-food, Rice or Oil
 - ☐ Household Cleaners
 - ☐ Personal Hygiene Products
 - ☐ Stationery
 - ☐ Others, Please specify _____
 - ☐ I never buy anything in a supermarket
9. Please tick three of the following items that you are most likely to buy when you are in a convenience store.
- ☐ Snacks & Drinks
 - ☐ Fruits, Vegetables, or Meat
 - ☐ Can-food, Rice or Oil
 - ☐ Household Cleaners
 - ☐ Personal Hygiene Products
 - ☐ Stationery
 - ☐ Others, Please specify _____
 - ☐ I never buy anything in a convenience store
9. Please tick three of the following items that you are most likely to buy when you are in a traditional store.
- ☐ Snacks & Drinks
 - ☐ Fruits, Vegetables, or Meat
 - ☐ Can-food, Rice or Oil
 - ☐ Household Cleaners
 - ☐ Personal Hygiene Products
 - ☐ Stationery
 - ☐ Others, Please specify _____
 - ☐ I never buy anything in a traditional store
10. Please choose five salient factors for retail shop selection from the following list and rank them according to its importance.
(5 is the most important factor and 4 is less and so on until 1 which is the least important factor within the 5 salient factors)
- ☐ Location
 - ☐ Nature & Quality of Assortment
 - ☐ Convenience
 - ☐ Price
 - ☐ Advertising & Promotion
 - ☐ Sales Personnel
 - ☐ Service Offered
 - ☐ Physical Store Attributes
 - ☐ Nature of Store Clientele
 - ☐ Store Atmosphere
 - ☐ Post Transaction Service & Satisfaction
 - ☐ Others, please specify _____

----- END -----

Thanks for your cooperation.

Appendix II Sample Questionnaire

WE ARE MBA STUDENTS OF THE CHINESE UNIVERSITY OF HONG KONG DOING A MARKETING SURVEY ON DIFFERENCE BETWEEN TRADITIONAL AND CONVENIENCE STORES. WE WOULD APPRECIATE YOUR ASSISTANCE IN COMPLETING THE FOLLOWING QUESTIONNAIRE.

INTRODUCTION

1. Years of operation: _____ Years.
2. Is this business yours: yes _____, no _____.
3. Nature of premises: own property _____, rent _____.

ATTITUDES TOWARDS FRANCHISING

1. Do you know what is franchising?
yes _____, no _____, some knowledge _____.
(If interviewee does not know what franchising is, we will explain this to him / her.)
2. Do you think franchising needs a large amount of initial investment?
yes _____, no _____, no comment _____.
3. Do you believe franchising will enhance your own earnings?
yes _____, no _____, no comment _____.
4. Do you think franchising will restrict your freedom in running the business?
yes _____, no _____, no comment _____.
5. If possible, do you think you will choose to become a franchisee?
yes _____, no _____, no comment _____.
why? _____.

VALUE JUDGEMENT

1. Monetary reward is a very important measurement in running a business.
strongly agree _____, agree _____, no comment _____,
disagree _____, strongly disagree _____.
2. Family relation is a very important measurement in running a business.
strongly agree _____, agree _____, no comment _____,
disagree _____, strongly disagree _____.

3. Working environment is a very important measurement in running a business.
strongly agree _____, agree _____, no comment _____, disagree _____, strongly disagree _____.
4. Work load is a very important measurement in running a business.
strongly agree _____, agree _____, no comment _____, disagree _____, strongly disagree _____.
5. Able to make decision freely is a very important factor in running a business.
strongly agree _____, agree _____, no comment _____, disagree _____, strongly disagree _____.
6. Handling employees is a very difficult task.
strongly agree _____, agree _____, no comment _____, disagree _____, strongly disagree _____.

STATISTICS

1. How many people is working for this business: _____ people.
2. Of these, how many of them is related to your family:
_____ people.
3. Hours of operation in a day: _____ hours.
4. Days of operation in a week: _____ days.
5. What is your estimated monthly sales (around how many thousand):
_____ thousand.
6. Net profit margin (around how many percent): _____%.

OTHER COMMENTS

Fig 1

AVERAGE TRANSACTION AMOUNT OF EACH RETAIL OUTLET

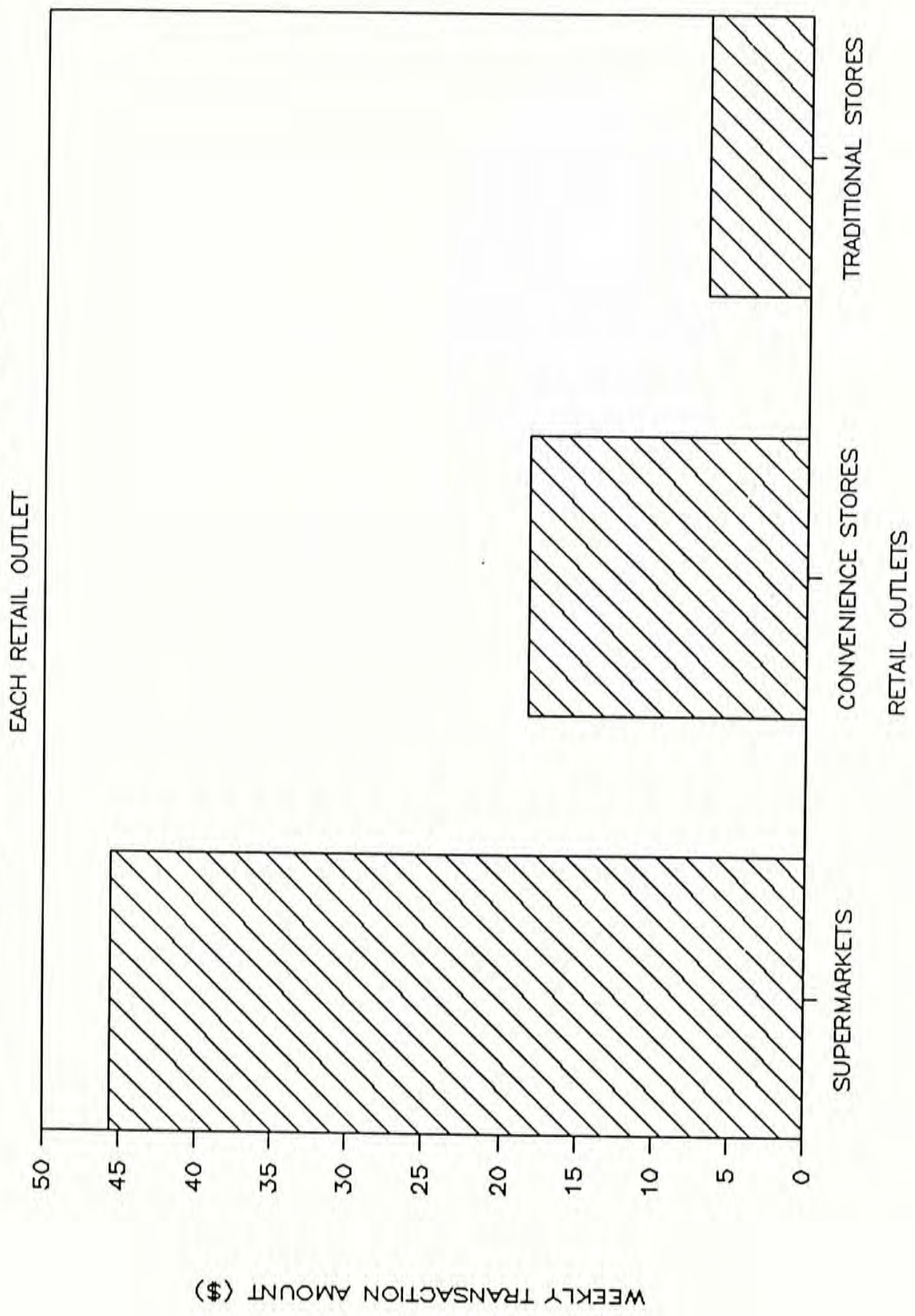


Fig. 2

AVERAGE TRANSACTION AMOUNT AT EACH

RETAIL OUTLET FOR DIFF. INCOME GROUP

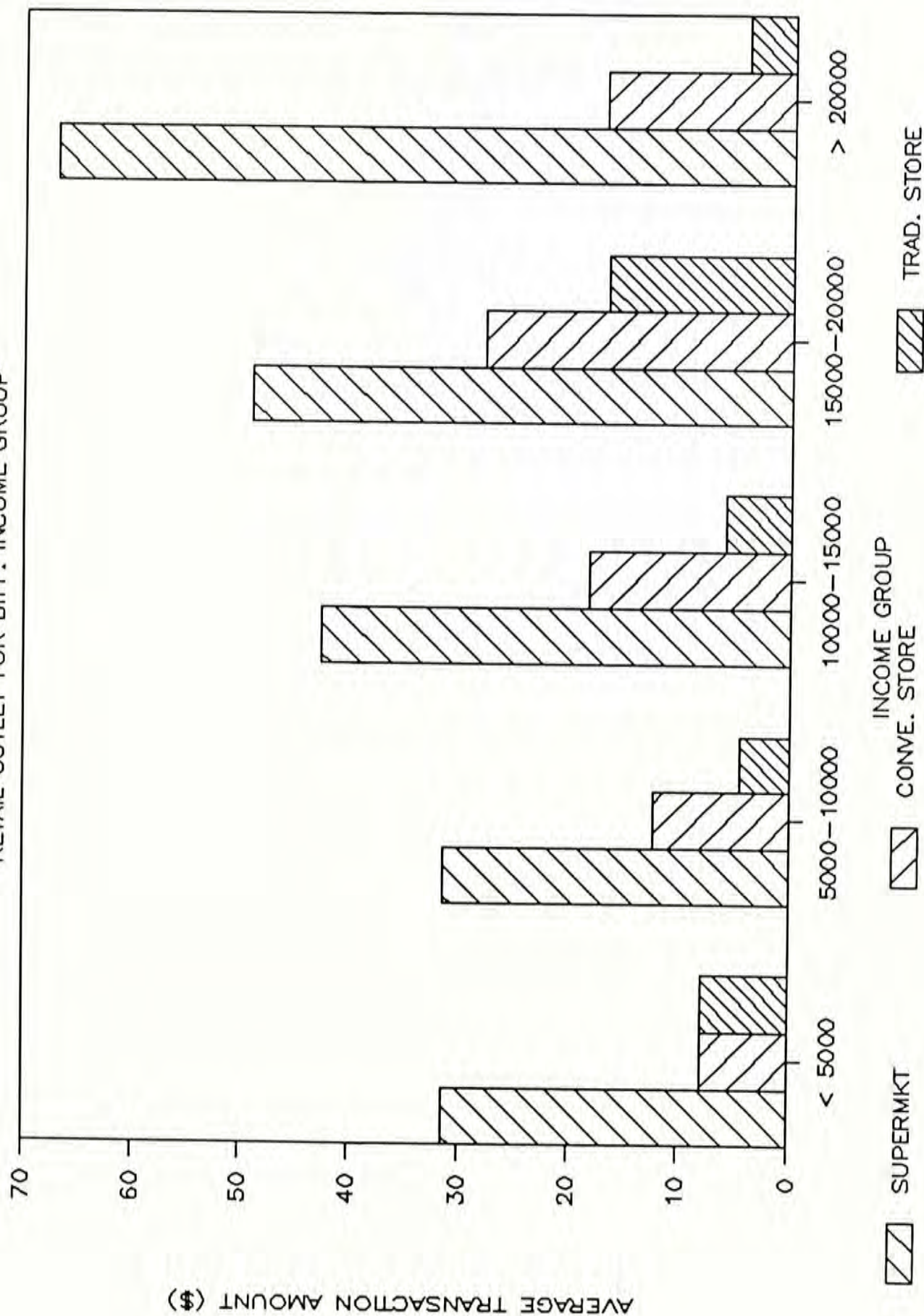


Fig. 3

SHOPPING FREQUENCY OF EACH

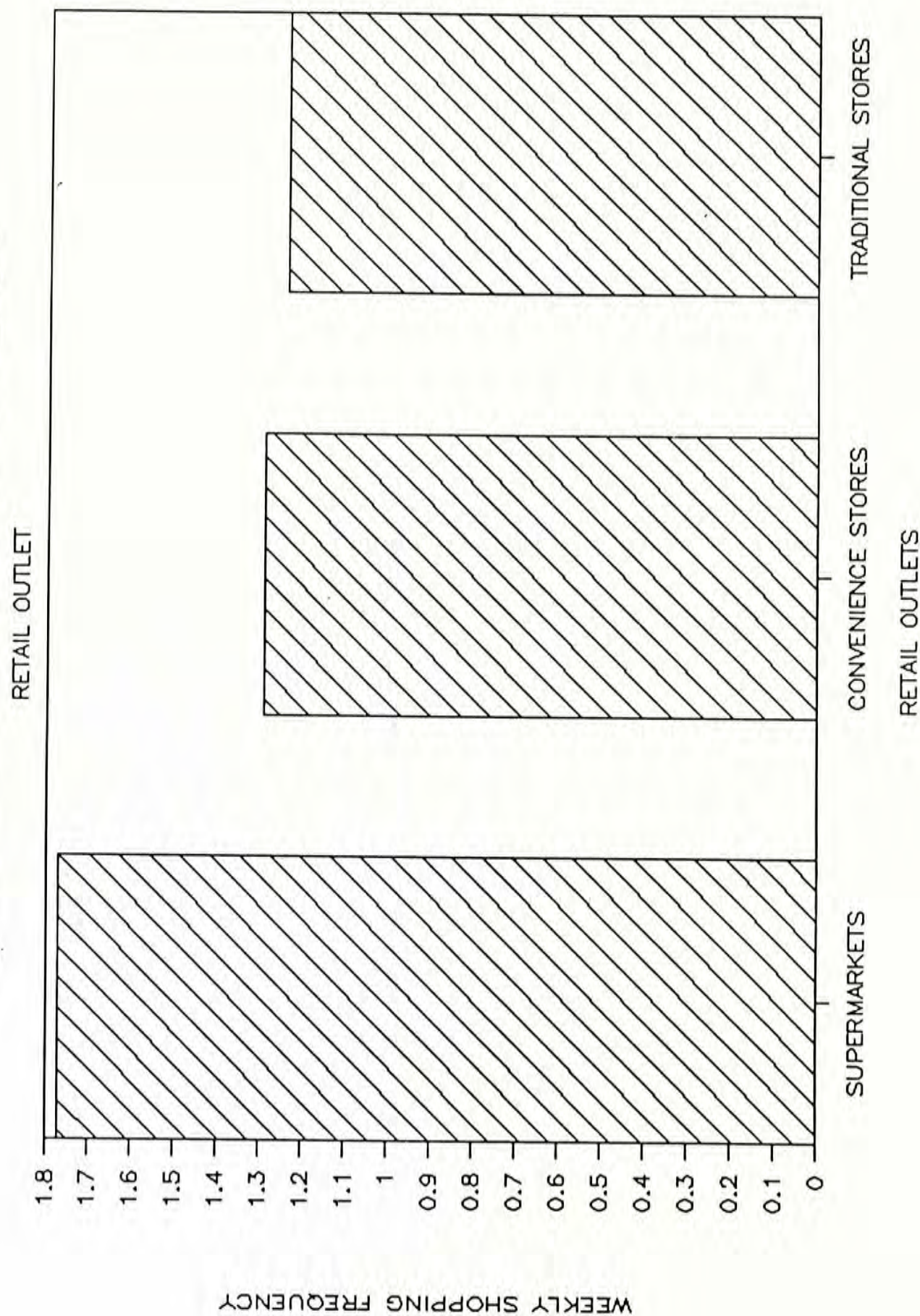


Fig. 4.

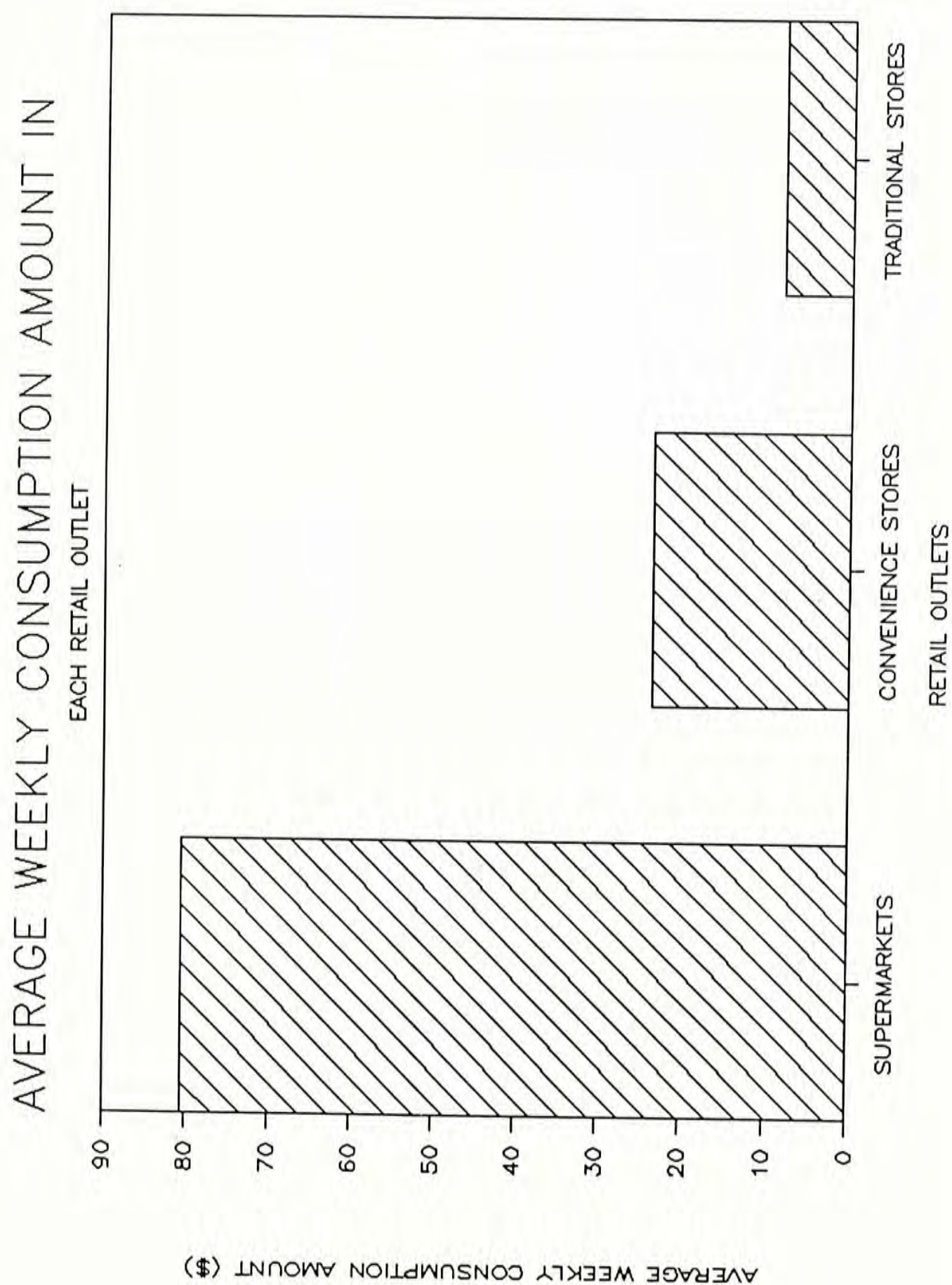


Fig. 5

SHOPPING FREQUENCY AT EACH

RETAIL OUTLET FOR DIFF. EDUCATION

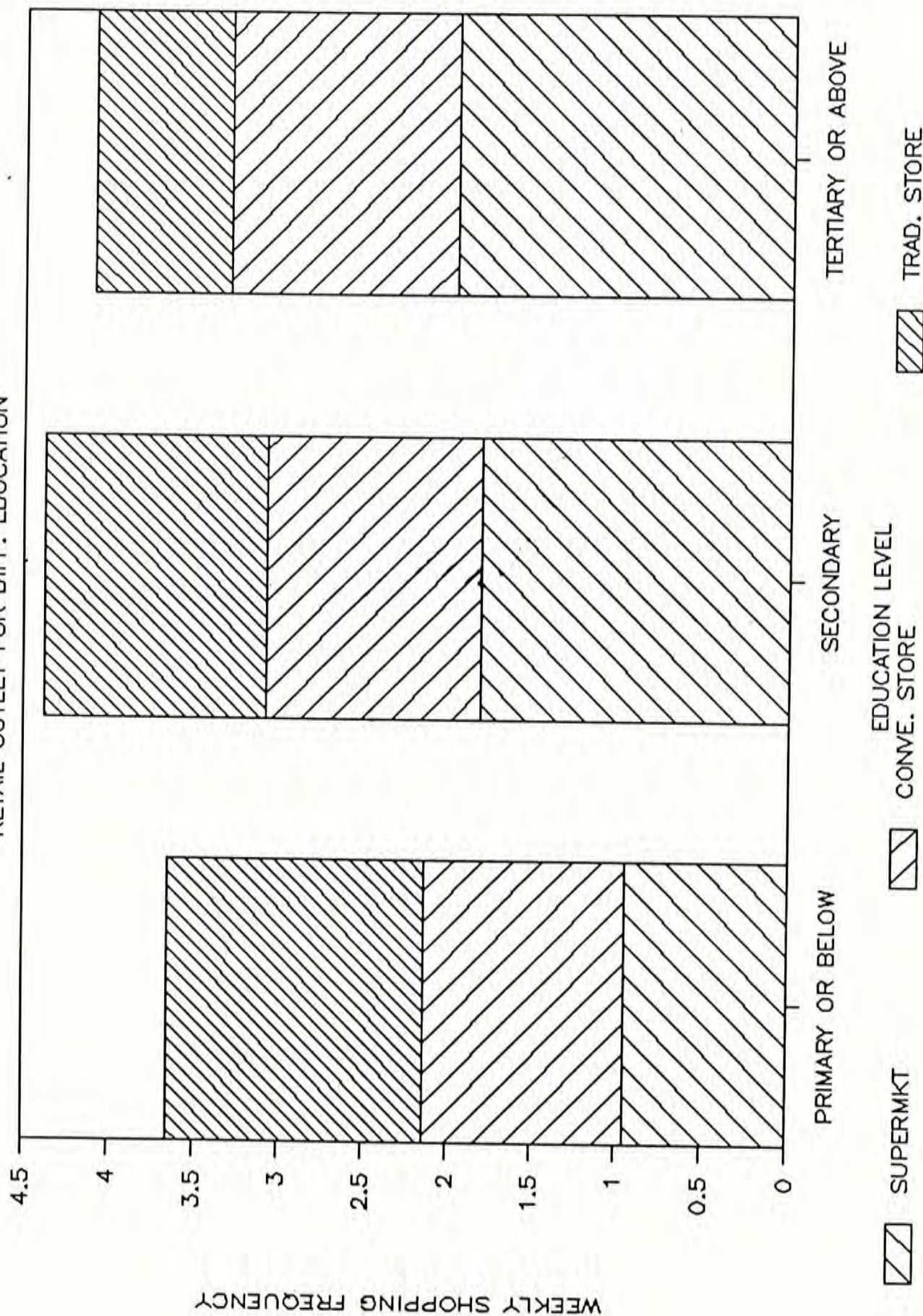


Fig. 6.

AVERAGE SHOPPING FREQUENCY AT EACH

RETAIL OUTLET FOR DIFF. INCOME GROUP

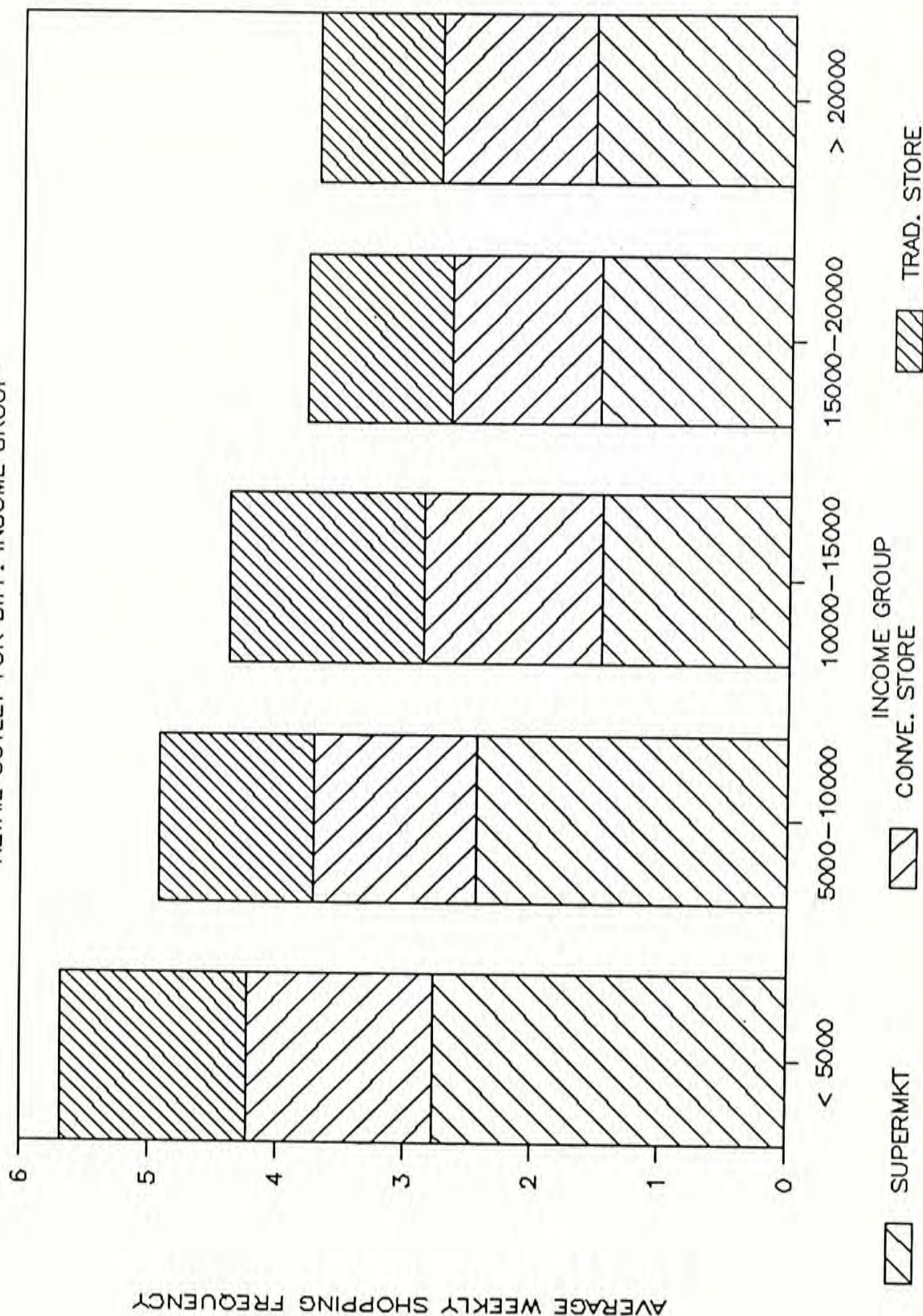


Fig. 7

COMMON PURCHASING ITEMS IN

CONVENIENCE STORE

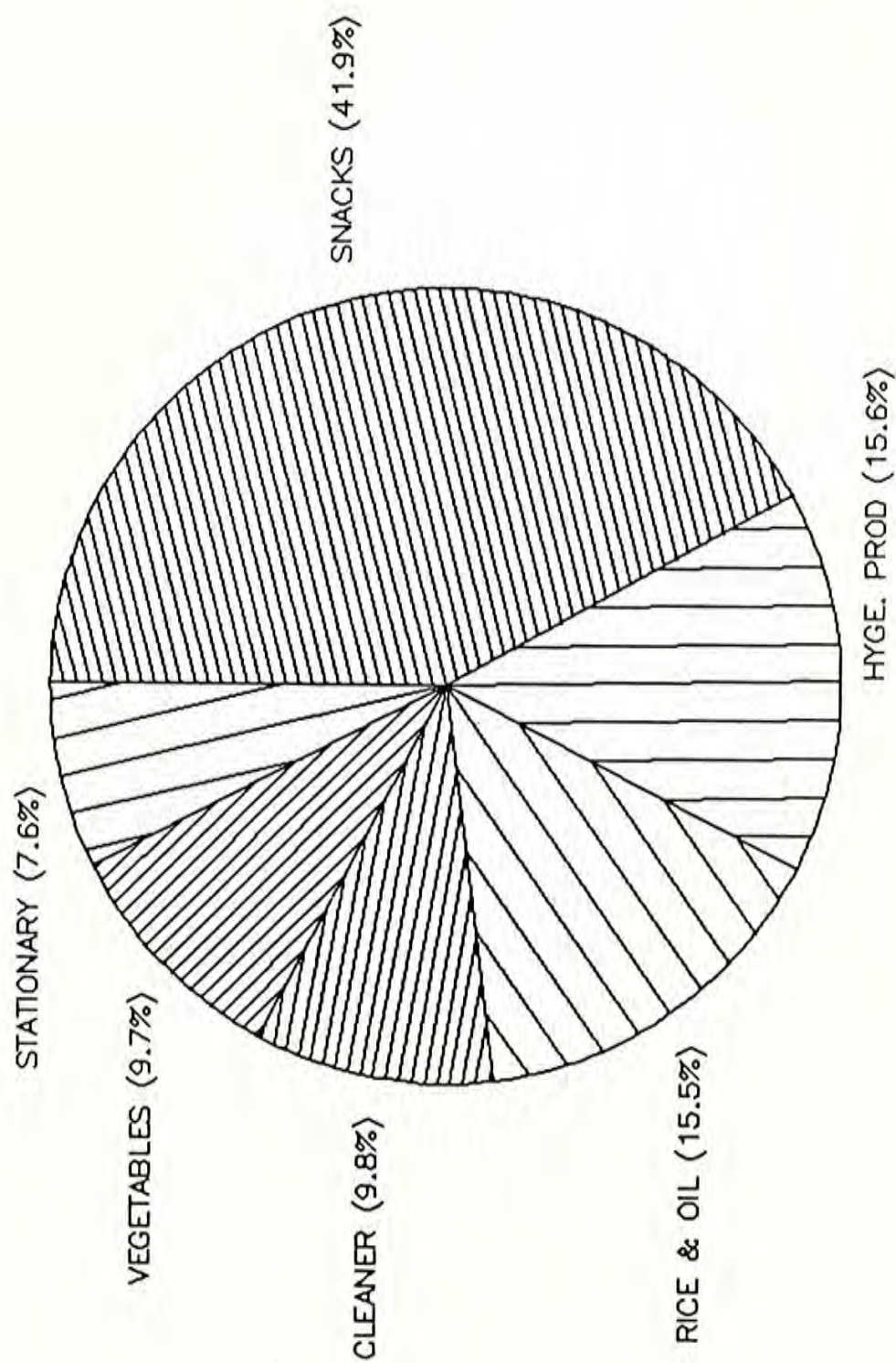


Fig. 8

COMMON PURCHASING ITEMS IN

SUPERMARKET

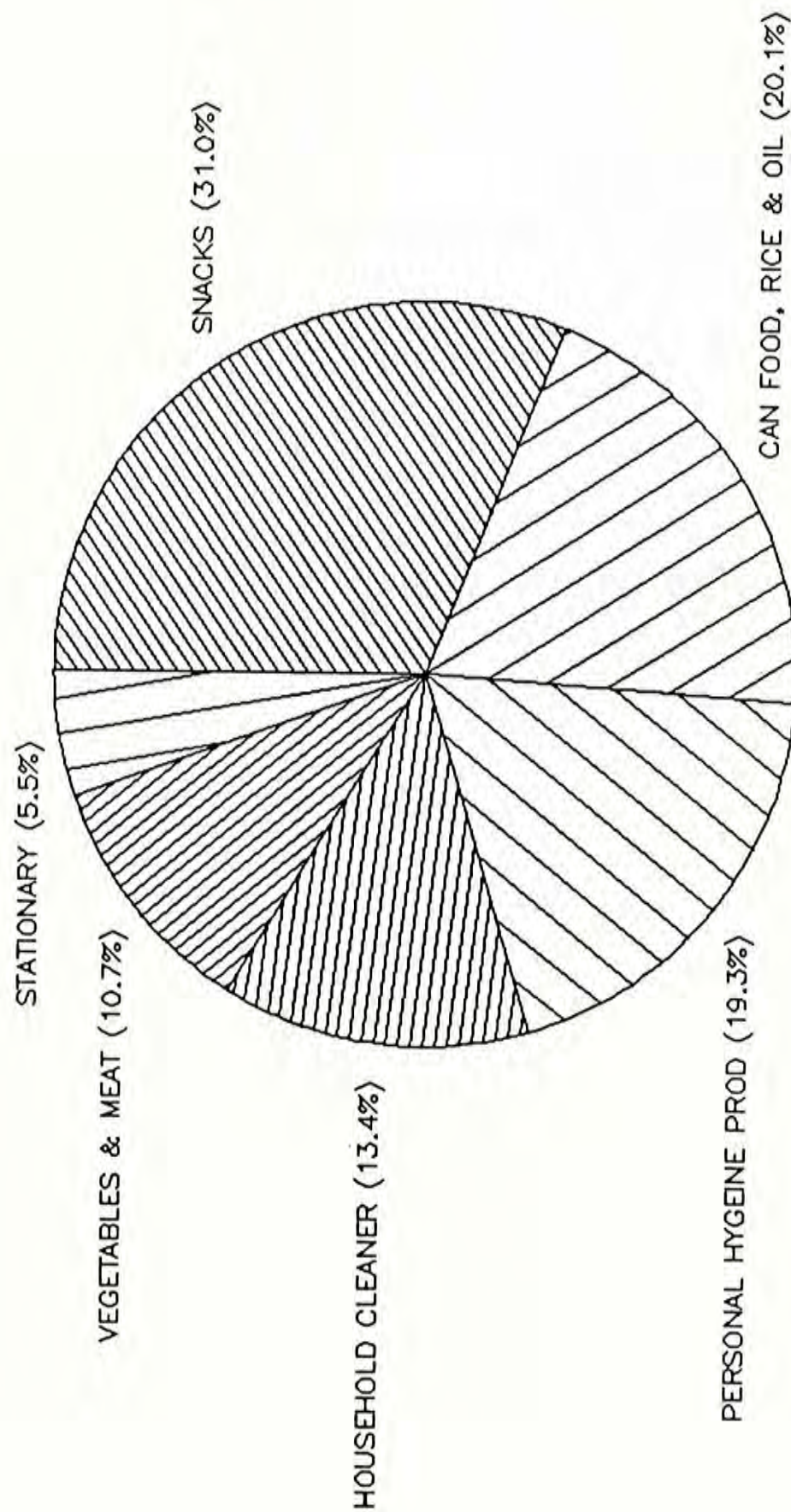


Fig. 9

COMMON PURCHASING ITEMS IN

TRADITIONAL STORE

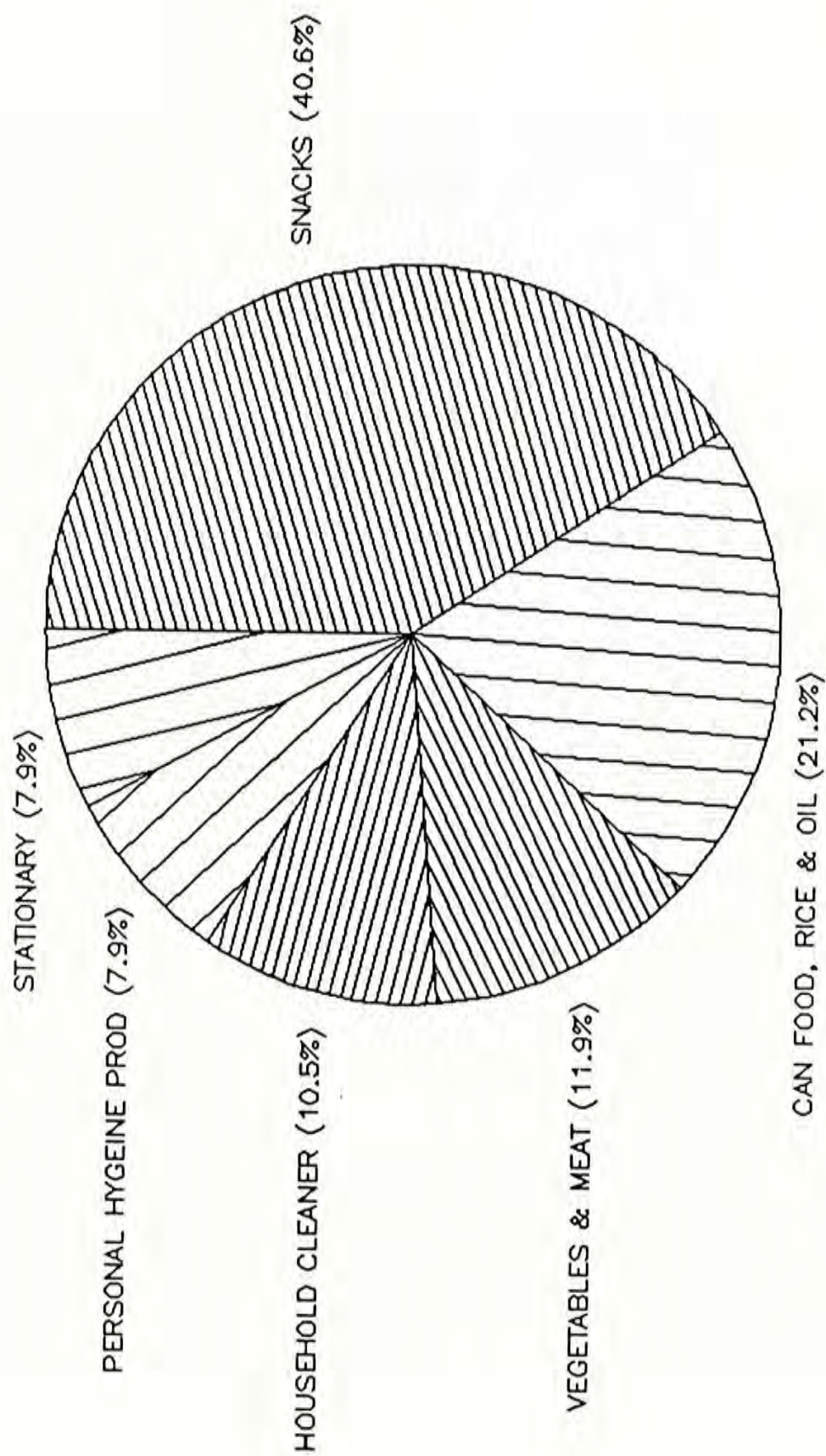


Fig. 10

COMMON PURCHASING ITEMS IN EACH RETAIL OUTLET

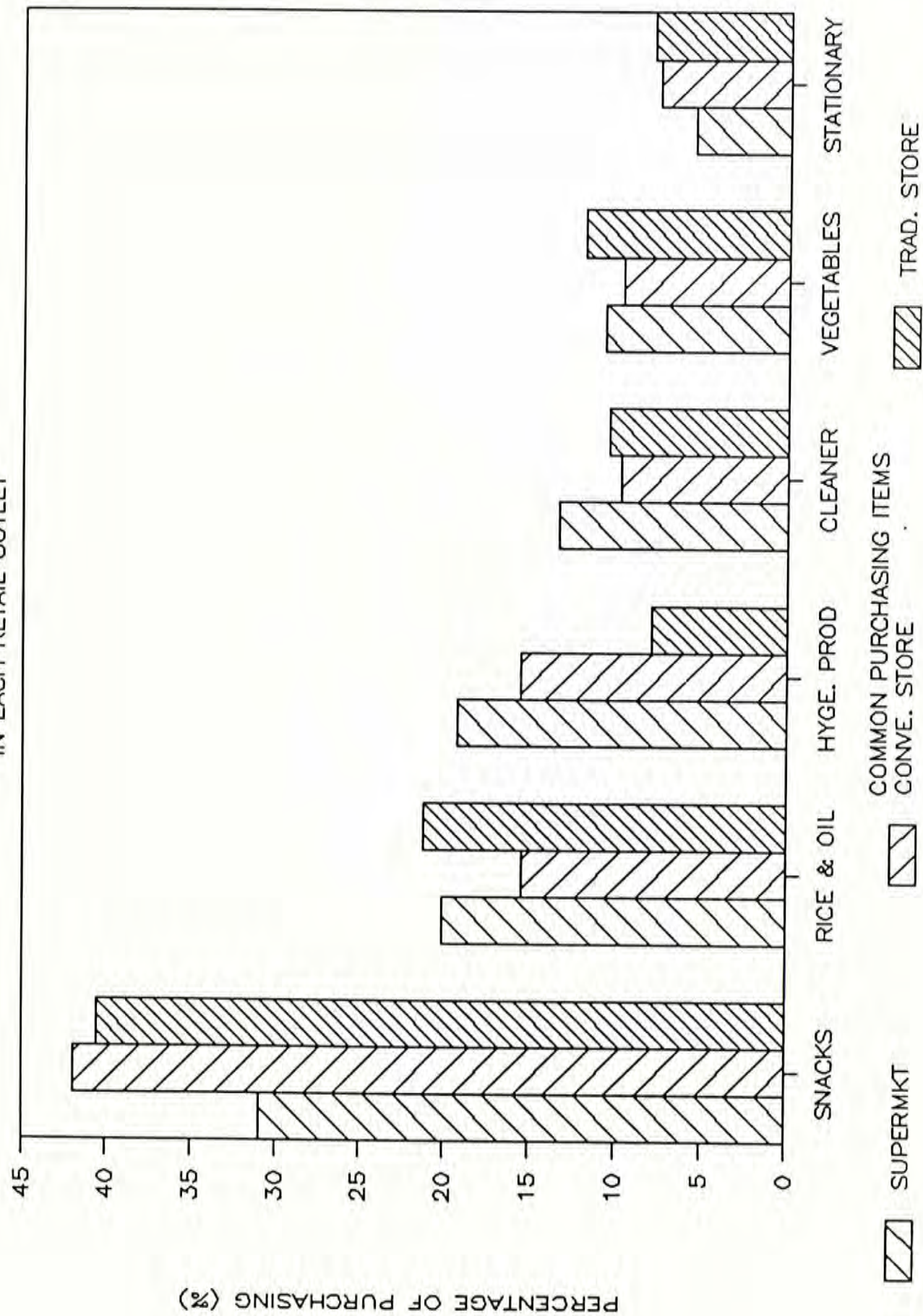


Fig. 11

SALIENT FACTORS FOR

RETAIL OUTLET SELECTION

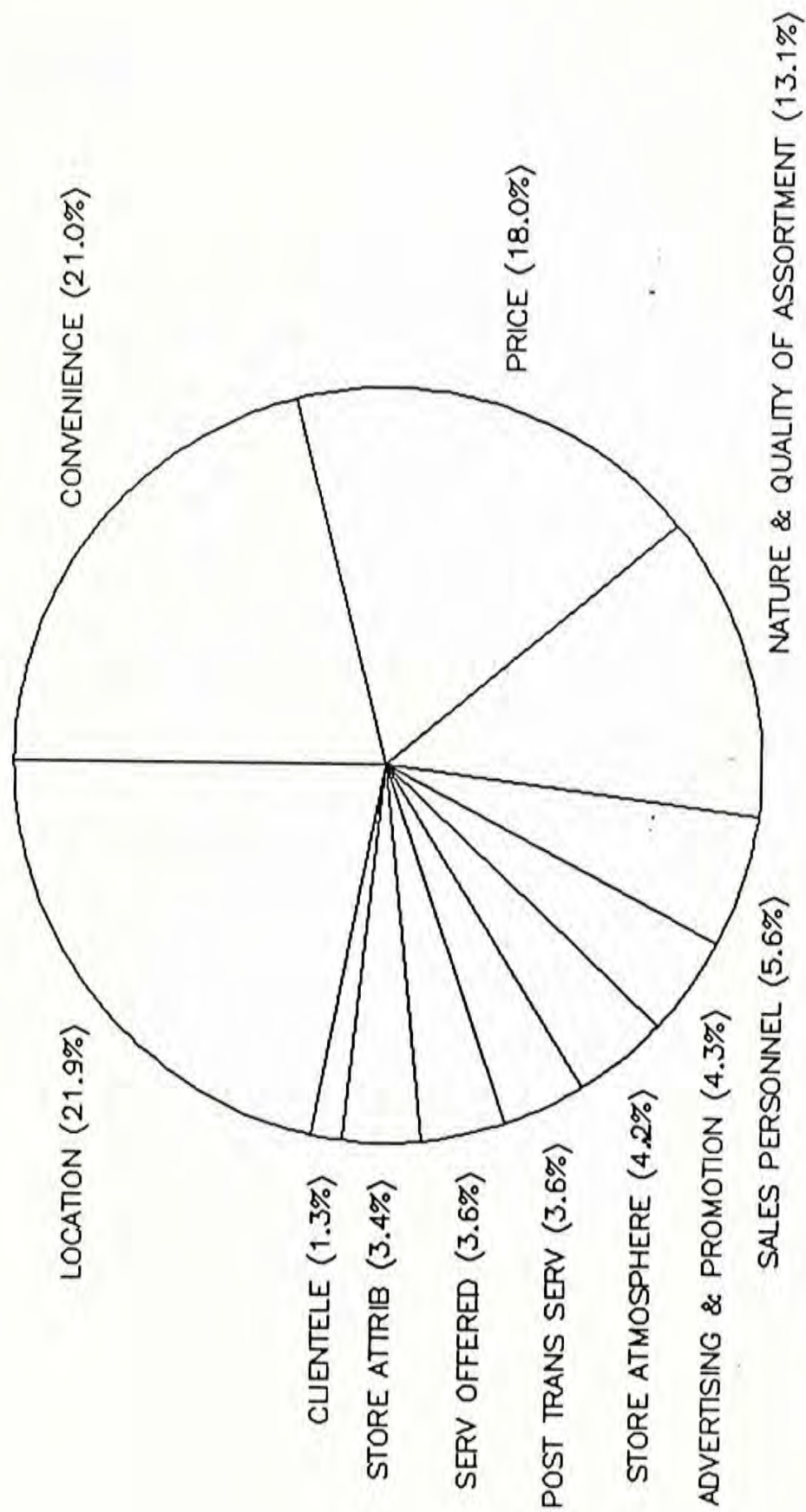


Fig. 12

Believe that franchising needs a huge investment

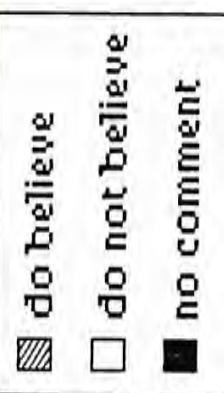
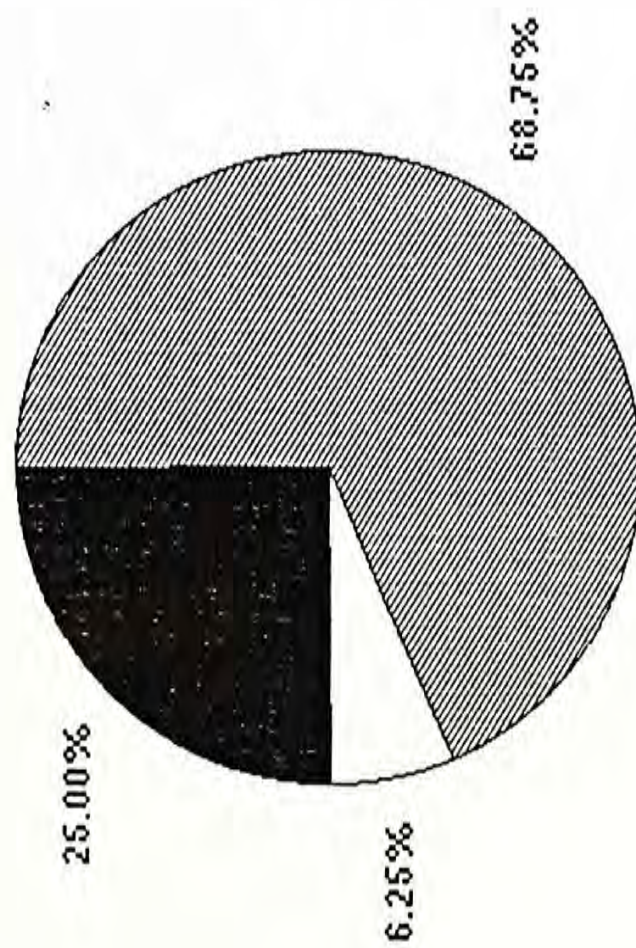


Fig. 13

Believe whether franchising will enhance profitability

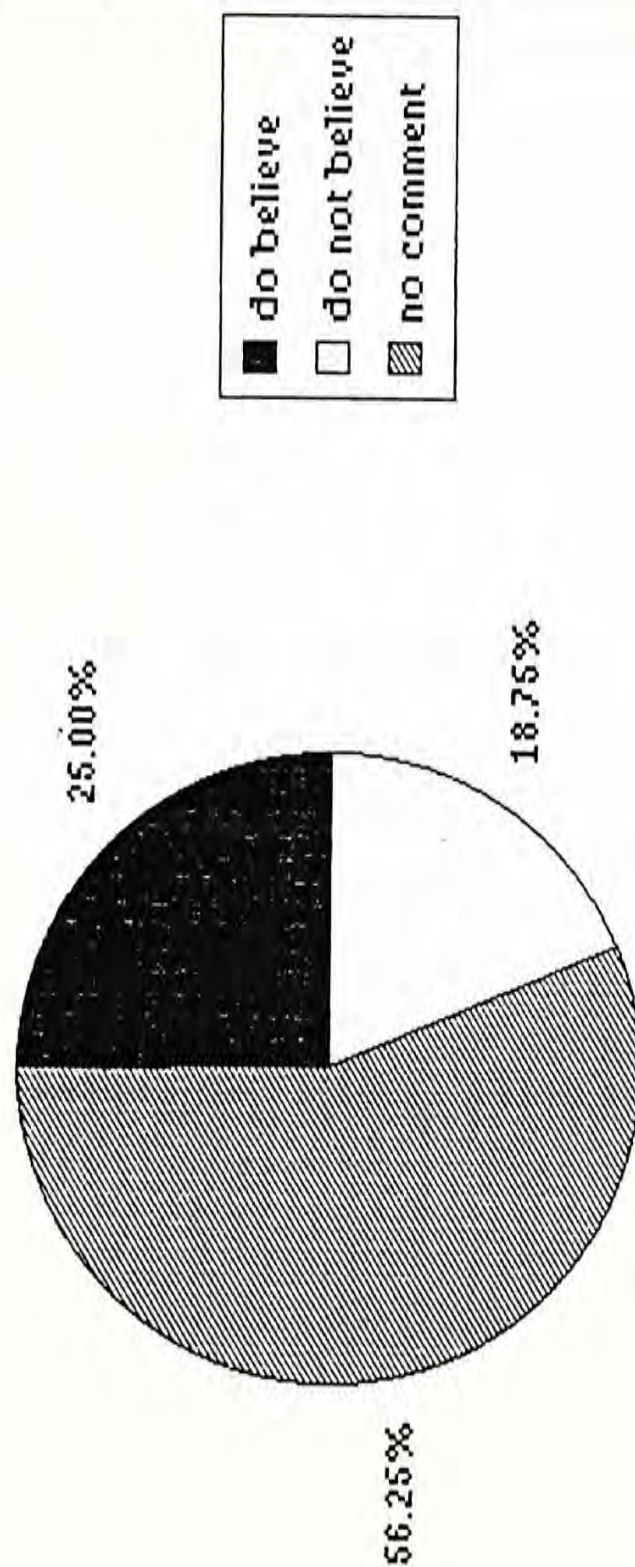


Fig. 14

Believe that franchising will restrict freedom in running business

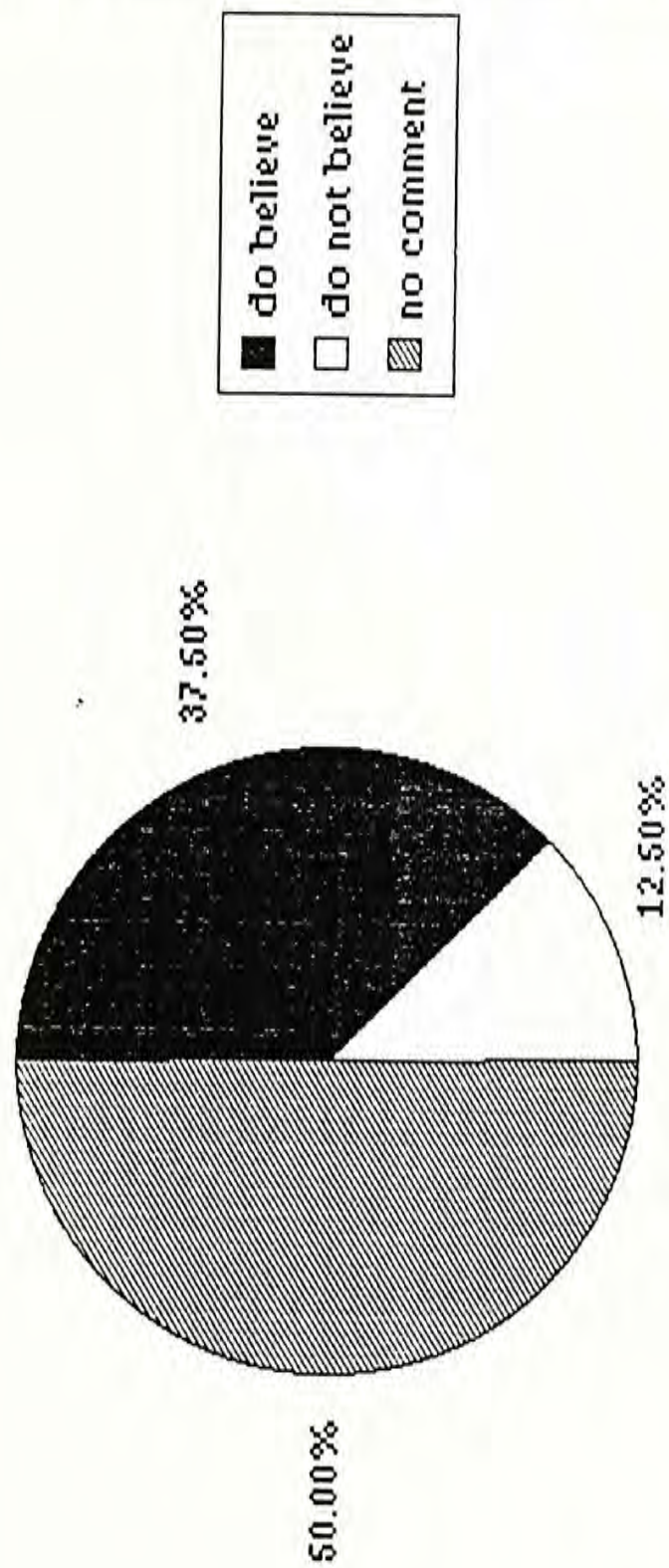


Fig. 15

If possible, whether the interviewee will choose to enter a franchising agreement?

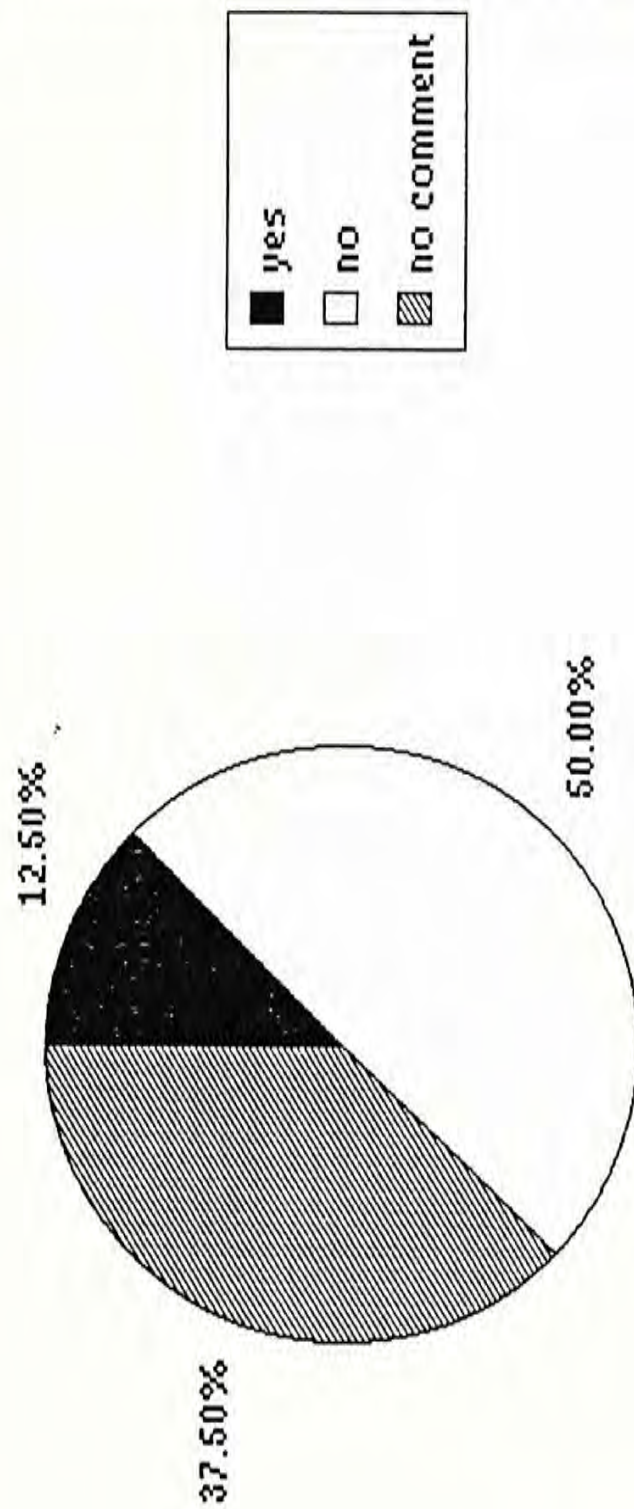


Fig. 16

Reasons for not preparing to join franchising business

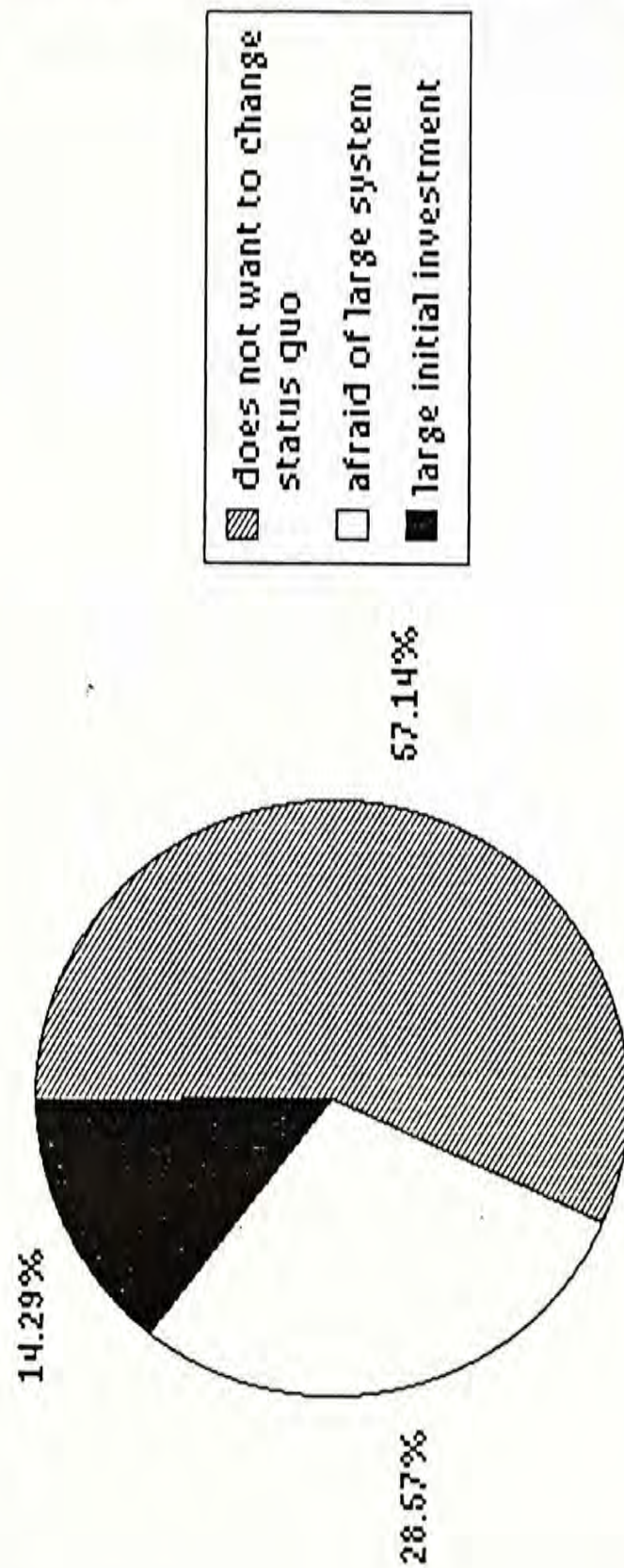
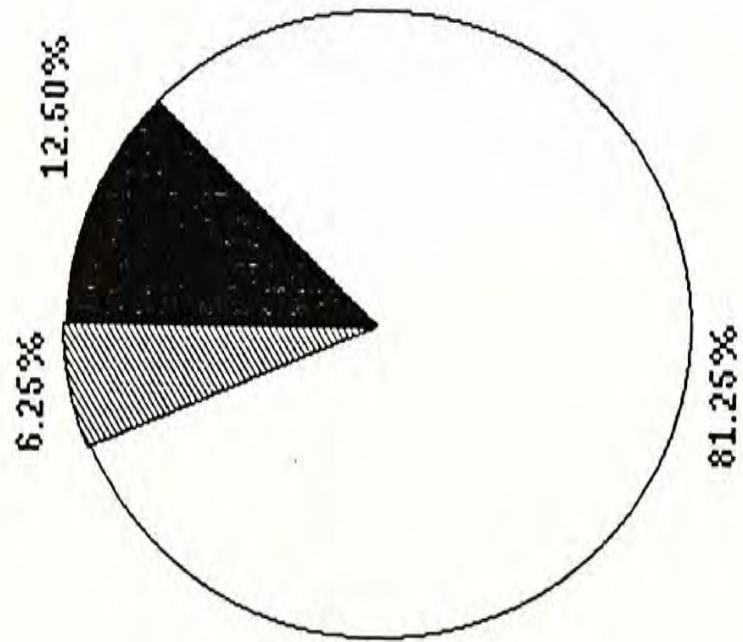


Fig. 17

Knowledge of franchising



- have knowledge
- have no knowledge
- ▨ have some knowledge

Fig. 18

Monetary reward is a very important measurement in running a business

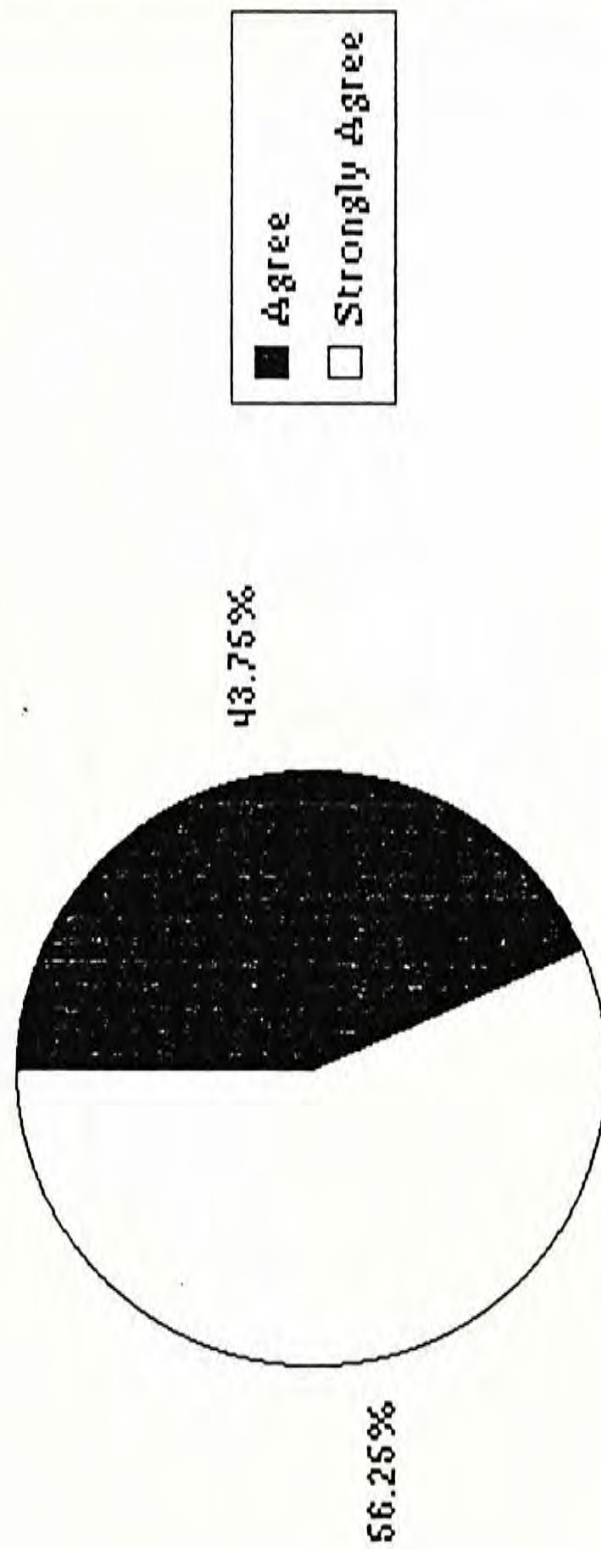


Fig. 19

Monthly turnover, in thousands

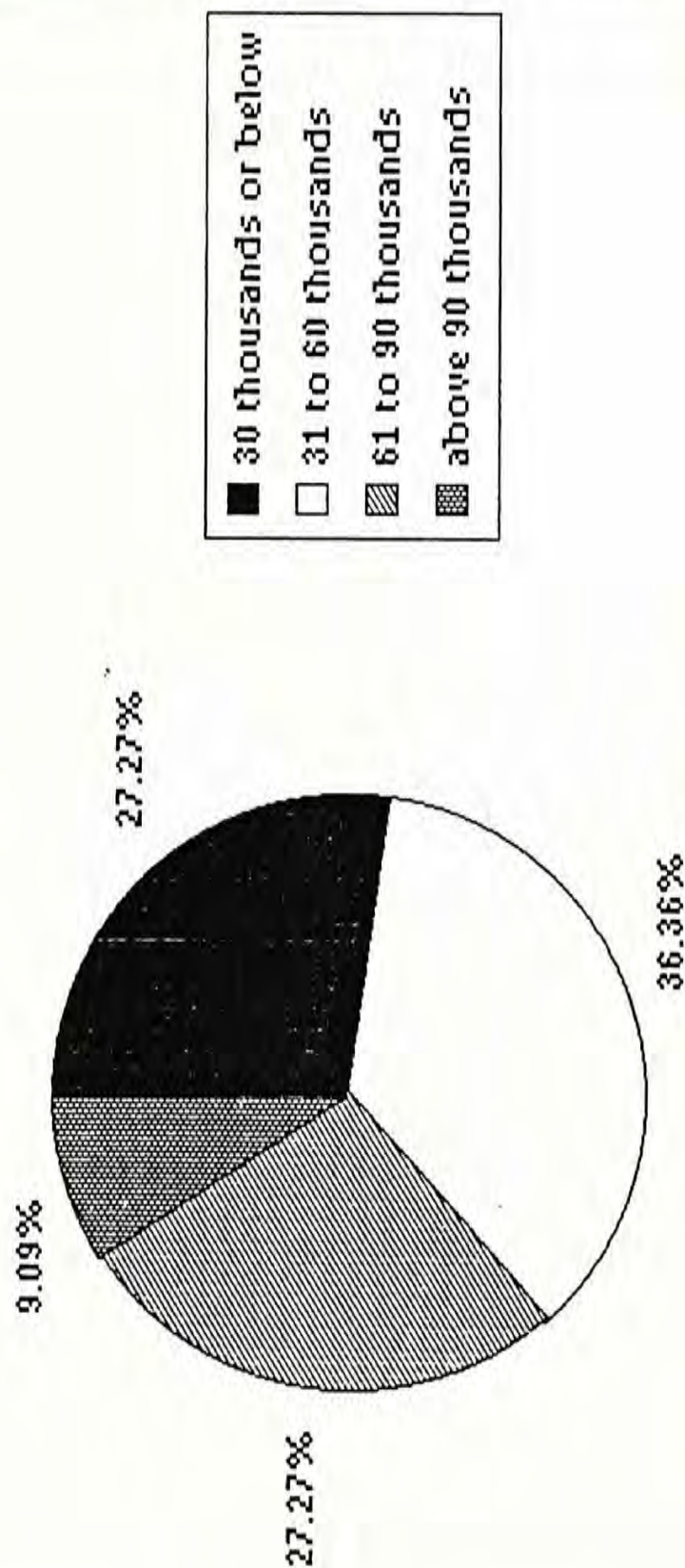


Fig. 20

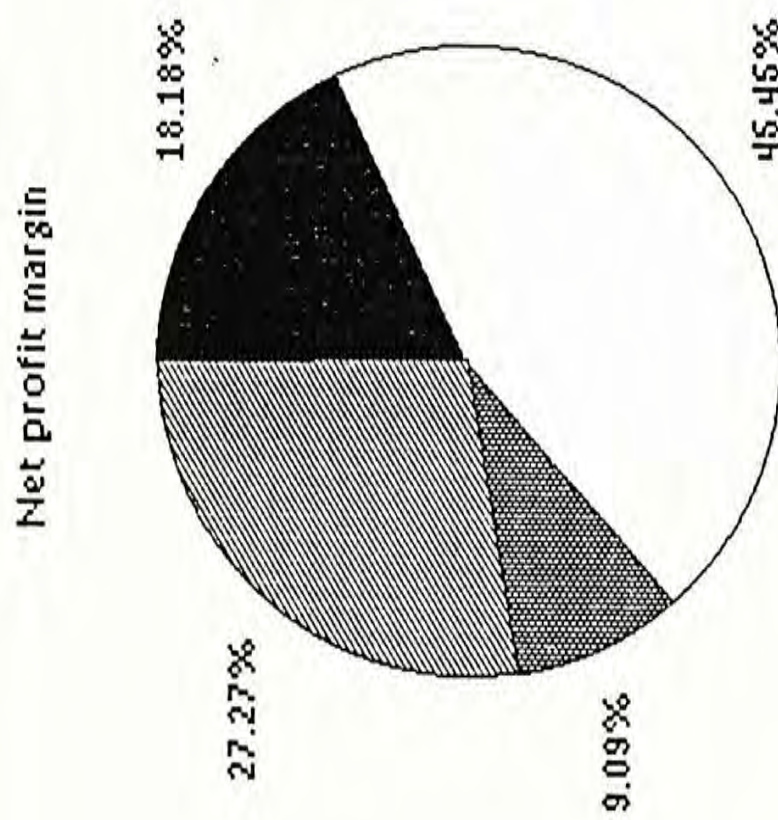


Fig. 22

Work load is a very important measurement in running a business

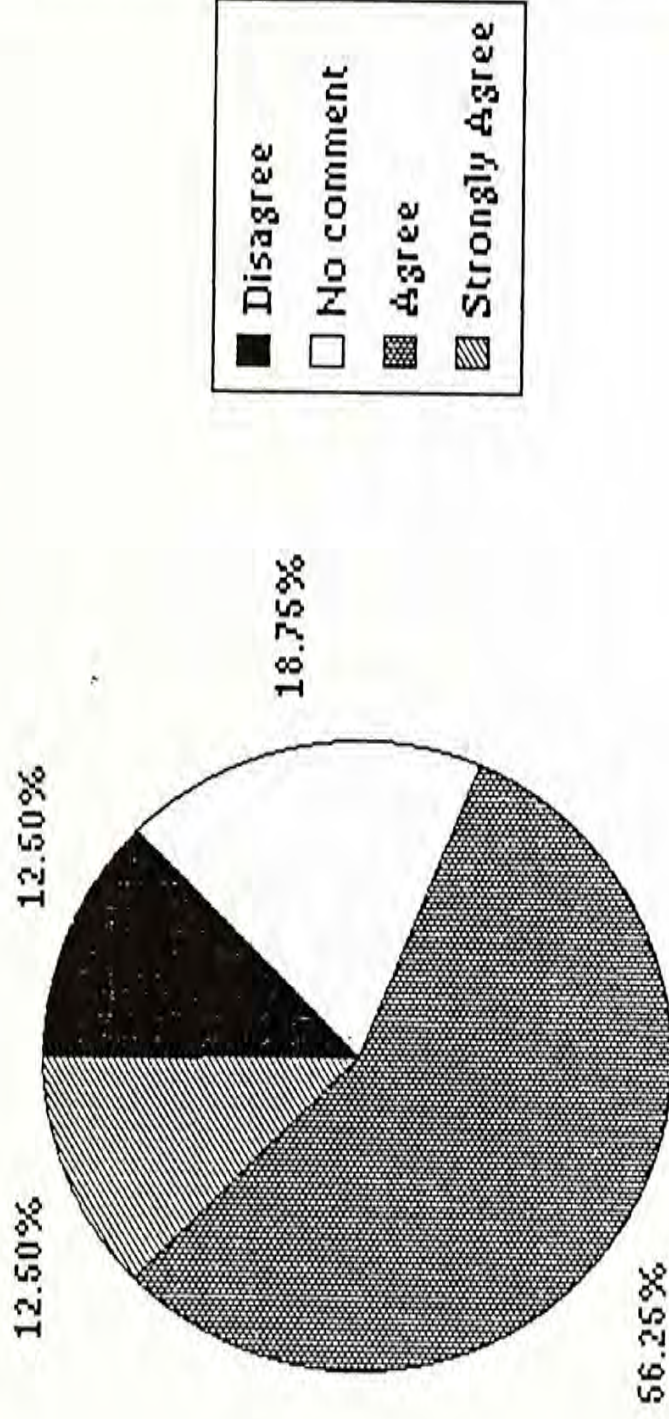
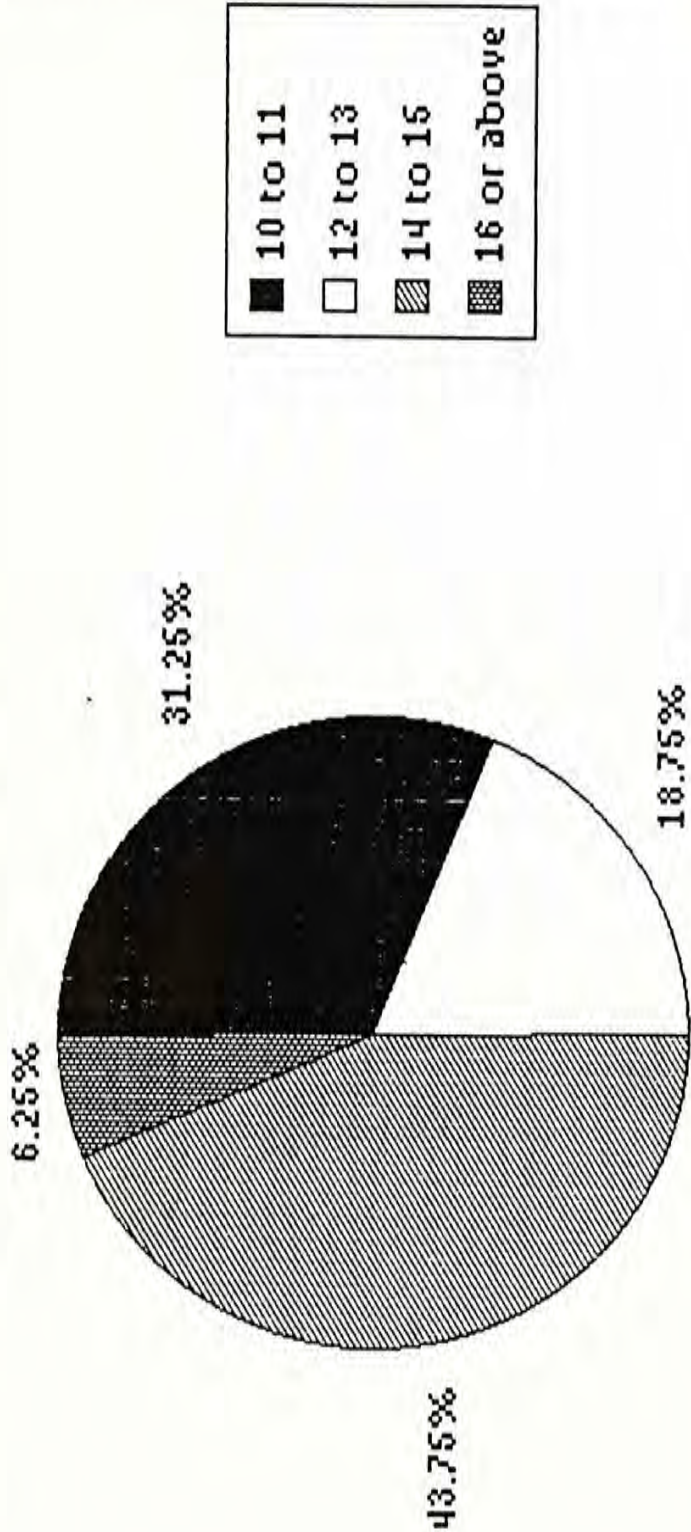


Fig. 23

Hours of operation in a day



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